

1	BEFORE THE		
2	ILLINOIS COMMERCE COMMISSION		
3	CENTRAL ILLINOIS LIGHT COMPANY	)	DOCKET NO.
4	d/b/a AmerenCILCO	)	07-0585
5)	
6	Proposed general increase in)	
7	electric delivery service rates.)	
8)	
9	CENTRAL ILLINOIS PUBLIC SERVICE	)	DOCKET NO.
10	COMPANY d/b/a AmerenCIPS	)	07-0586
11)	
12	Proposed general increase in)	
13	electric delivery service rates.)	
14)	
15	ILLINOIS POWER COMPANY d/b/a	)	DOCKET NO.
16	AmerenIP	)	07-0587
17)	
18	Proposed general increase in)	
19	electric delivery service rates.)	
20)	
21	CENTRAL ILLINOIS LIGHT COMPANY	)	DOCKET NO.
22	d/b/a AmerenCILCO	)	07-0588
)	
	Proposed general increase in gas)	
	delivery service rates.)	
)	
	CENTRAL ILLINOIS PUBLIC SERVICE	)	DOCKET NO.
	COMPANY d/b/a AmerenCIPS	)	07-0589
)	
	Proposed general increase in gas)	
	delivery service rates.)	
)	
	ILLINOIS POWER COMPANY d/b/a	)	DOCKET NO.
	AmerenIP	)	07-0590
)	
	Proposed general increase in gas)	
	delivery service rates.)	
)	
	Springfield, Illinois		
	Monday, June 9, 2008		

1 APPEARANCES: (Continued)

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26 SULLIVAN REPORTING COMPANY, by
27 Carla J. Boehl, Reporter
28 Ln. #084-002710

1		<u>I N D E X</u>			
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PROCEEDINGS

JUDGE ALBERS: By the authority vested in me by the Illinois Commerce Commission, I now call Docket Numbers 07-0585 through 07-0590. These dockets concern a general increase in rates for delivery services submitted by Central Illinois Light Company, Central Illinois Public Service Company and Illinois Power Company, all part of the Ameren Corporation.

May I have the appearances for the record, please?

MR. FLYNN: Christopher W. Flynn, Mark Whitt, Laura Earl, Albert Sturtevant, Jones Day, 77 West Wacker, Suite 3500, Chicago, Illinois 60601, on behalf of the Respondent Ameren Illinois utilities.

MR. FITZHENRY: Edward Fitzhenry and Matt Tomc, T-O-M-C, 1901 Chouteau Avenue, St. Louis, Missouri, on behalf of the Ameren Illinois utilities.

MR. OLIVERO: Appearing on behalf of the Staff witnesses of the Illinois Commerce Commission, Linda M. Buell, Janis E. Von Qualen, James Olivero, 527 East Capitol Avenue, Springfield, Illinois 62701.

MR. E. ROBERTSON: Eric Robertson, Ryan

1 Robertson and Conrad Reddick, Lueders, Robertson and
2 Konzen, P.O. Box 735, 1939 Delmar, Granite City,
3 Illinois 62040, on behalf of the Illinois Industrial
4 Energy Consumers.

5 MS. LUSSON: On behalf of the People of the
6 State of Illinois, Karen Lusson, L-U-S-S-O-N, 100
7 West Randolph, 11th Floor, Chicago, Illinois 60601,
8 also Elias Mossos and Kristin Munsch, M-U-N-S-C-H.
9 Mossos is M-O-S-S-O-S, as well as Janice Dale,
10 D-A-L-E, on behalf of the People of the State of
11 Illinois.

12 MR. BALOUGH: Good morning, Your Honors.
13 Richard C. Balough, 53 West Jackson Boulevard, Suite
14 936, Chicago, Illinois 60604, appearing on behalf of
15 the Cities of Champaign, Urbana, Decatur,
16 Bloomington, Monticello and the Town of Normal.

17 MR. STREETER: Good morning. William Streeter,
18 S-T-R-E-E-T-E-R, address is 124 Southwest Adams in
19 Peoria 61602 for the Grain and Feed Association of
20 Illinois.

21 MR. RICH: Good morning, Your Honors. Randall
22 S. Rich of Bracewell and Giuliani, LLP, 2000 K Street

1 Northwest, Washington, D.C. 20006, on behalf of
2 Constellation NewEnergy-Gas Division, LLC.

3 MR. JENKINS: Good morning. Alan Jenkins, 2265
4 Roswell Road, Marietta, Georgia 30062, on behalf of
5 The Commercial Group.

6 MR. BOEHM: Good morning. Kurt Boehm, 36 East
7 Seventh Street, Cincinnati, Ohio 45202, appearing on
8 behalf of the Kroger Company.

9 MS. CHOPRA: Good morning. Kavita Chopra and
10 Julie Soderna, 309 West Washington, Suite 800,
11 Chicago, Illinois 60606, on behalf of the Citizens
12 Utility Board.

13 MR. COFFMAN: Let the record reflect the
14 appearance of John V. Coffman, 871 Tuxedo Boulevard,
15 St. Louis, Missouri 63119, appearing on behalf of
16 AARP.

17 JUDGE ALBERS: Any others?

18 MR. FITZHENRY: I would make the observation I
19 think now there are more lawyers in this case than
20 witnesses.

21 JUDGE ALBERS: Thank you, Mr. Fitzhenry. Let
22 the record note there are no others wishing to enter

1 an appearance.

2 As far as preliminary matters, I have
3 a few I would like to go through. The first concerns
4 a motion, or an amended motion rather, that we
5 received on June 6 from IIEC. That was an amended
6 motion to admit into the evidentiary record certain
7 documents and schedules from the Ameren companies'
8 standard filings. Mr. Robertson, as part of that
9 motion did you have any thoughts on how it would be
10 moved into the record as far as a sponsoring witness?

11 MR. ROBERTSON: Well, as I recollect, the -- I
12 don't know how the Company feels about this, but they
13 had a party, I forget the name of the person who was
14 identified as sponsoring this study. I think that
15 would be the appropriate way to do it. I guess I
16 could have my witness do it since he reviewed the
17 study. It would seem to be more appropriate to have
18 the Company witness do it.

19 MR. FITZHENRY: There is no Company witness
20 that is in this case that actually did the studies.
21 Mr. Difani and Ms. Althoff were responsible for the
22 electric and gas studies respectively. But we have

1 no objection. Just to be fair to the bench and the
2 record, we don't have a witness here today or this
3 week that could actually authenticate the study.

4 JUDGE ALBERS: Okay. Any other concerns or
5 objections regarding IIEC's witness or motion rather?
6 No. All right.

7 Would the Company be willing to have
8 one of those two individuals who prepared the study
9 submit an affidavit here?

10 MR. FITZHENRY: Is that a question?

11 JUDGE ALBERS: Yes.

12 MR. FITZHENRY: Yes, we would be willing to do
13 that.

14 JUDGE ALBERS: Who did you say again were the
15 two witnesses? Mr. Difani and --

16 MR. FITZHENRY: Mr. Bill Difani for the
17 electric study and Ms. Karen Althoff for the gas
18 study. We will have that done in the next day or so.

19 JUDGE ALBERS: Thank you. We will wait until
20 we get those affidavits, and we will come back to the
21 motion then.

22 And my other preliminary matters

1 concern just some housekeeping type stuff from our
2 last hearing. We had Staff's two notices of
3 objections to confidential designations. As I
4 recall, the Company was going to give that some
5 further thought.

6 MS. VON QUALEN: The Company did get back to
7 Staff and indicated that they did not object to Staff
8 filing that information publicly. And so I think
9 later this afternoon Staff is going to file revised
10 exhibits of Ms. Ebrey and Mr. Lounsberry. I think
11 this afternoon; it could be tomorrow.

12 JUDGE ALBERS: That's fine.

13 MS. VON QUALEN: There will be an errata with
14 it. There is one other word change in Ms. Ebrey's,
15 but other than that the revised exhibits are going to
16 reflect the deviations in the designation.

17 JUDGE ALBERS: Okay, thank you. And with
18 regard to the Staff Motion to Compel that we received
19 on June 3, has that been resolved, shall we say?

20 MS. VON QUALEN: Yes, it has, Judge.

21 JUDGE ALBERS: Okay. There is no need for a
22 ruling on that. Any other preliminary matters?

1 MS. VON QUALEN: Yes. As I mentioned before
2 when on the record, Staff has Staff Group Exhibit 1
3 which consists of a number of data request responses
4 which the Company has agreed to stipulate to and put
5 in the record. We have copies of those for the
6 judges and for counsel. I don't know if you want us
7 to comment on that now or --

8 MR. FITZHENRY: Jan, it is my recollection that
9 one or more of those data request responses were
10 confidential.

11 MS. VON QUALEN: One of them was.

12 MR. FITZHENRY: One of them was, and we would
13 expect the treatment accordingly.

14 MS. VON QUALEN: Shall I read off the numbers
15 for the data request responses so that everybody is
16 clear what they are?

17 MR. FITZHENRY: It's your choice.

18 JUDGE ALBERS: Why don't you go ahead and do
19 that, please?

20 MS. VON QUALEN: Staff Group Exhibit 1 includes
21 the Company responses to ENG 2.221, JF 6.01 through
22 6.03, RP 15.01 and McShane WP9, AG 3.03 and 3.03(d)

1 Attached, TEE 19.19 which has been designated as
2 confidential, TEE 2.32, TEE 21.03 and all attached,
3 TEE 21.04 and all attached, TEE 21.06, TEE 18.08, RP
4 16.07 and attached, RP 4.15 Supp, and current Rider T
5 for CILCO.

6 JUDGE ALBERS: Thank you. Are you moving for
7 admission now?

8 MS. BUELL: Yes.

9 JUDGE ALBERS: Are there any objections to the
10 admission of Staff Group Exhibit 1?

11 MR. FITZHENRY: No objection.

12 JUDGE ALBERS: Do you have copies of that for
13 everyone? Or that's just a little bit bigger than
14 the one I saw up there. If you want to wait until a
15 break, take time, then feel free, if no one has any
16 objections about not having it right away.

17 (Whereupon ICC Staff Group
18 Exhibit 1 was marked for
19 purposes of identification and
20 admitted into evidence.)

21 JUDGE ALBERS: Any other preliminary matters?
22 Okay.

1 MS. VON QUALEN: I had one other thing that I
2 just wanted to mention.

3 JUDGE ALBERS: I am sorry, is that just
4 submitted on paper or is that on e-Docket as well?

5 MS. VON QUALEN: Paper is all we have done.

6 I just wanted to mention this. I
7 believe there will not be a problem with it, but I do
8 just want it to be of record. I mentioned at the
9 motion hearing last week that Staff had not received
10 the verification for the Ameren data request
11 responses. We did begin to receive the
12 verifications. The verifications are not complete.
13 We assume that they are going to be complete within a
14 day or two or something. But I just wanted the court
15 to be aware that as of right now it is not and, of
16 course, if we were not able to get verifications for
17 data request responses, Staff would probably make
18 some type of motion. It would affect the evidence
19 and Staff's position in the case.

20 As I said, I don't foresee that there
21 is going to be a problem, but I just want to make
22 sure of that up front.

1 MR. FLYNN: We have discussed this with Ms. Von
2 Qualen, and there should not be any problem.

3 JUDGE ALBERS: Very good, thank you. Anything
4 else? Okay.

5 MR. RICH: Your Honor, Randall Rich for
6 Constellation NewEnergy-Gas Division. What is your
7 preferred procedure for admitting the testimony and
8 exhibits of witnesses for whom there is not going to
9 be any cross examination?

10 JUDGE ALBERS: If the person has the affidavit
11 handy, we can take care of that whenever we have a
12 break or a lull in the proceeding. If there is no
13 affidavit available just yet, we will identify it
14 with a number for the record, and usually the parties
15 are comfortable with it meaning testimony, knowing
16 that the identified affidavit will be submitted
17 shortly. We can take that up as it arises.

18 I don't think on the schedule we have
19 there was -- those that had no testimony -- or, no, I
20 am sorry. Those that had no cross for them, I don't
21 think they are listed on our daily schedule, but we
22 will try to work them in as we can. Does that sound

1 right as far as the schedule?

2 MR. FITZHENRY: Sure.

3 JUDGE ALBERS: I think they are on there. Does
4 that kind of answer your question?

5 MR. RICH: Yes, sir. If possible I would like
6 to get ours in some time today.

7 JUDGE ALBERS: Do you have the affidavits with
8 you now?

9 MR. RICH: No, Your Honor, I don't. My clients
10 are executing the affidavits. As soon as they are
11 executed, they will be filed. And is that acceptable
12 or do you need a hard copy here?

13 JUDGE ALBERS: You are going to file them on
14 e-Docket?

15 MR. RICH: Yes.

16 JUDGE ALBERS: That's fine. You should get
17 them filed today, you think?

18 MR. RICH: Yes, Your Honor.

19 JUDGE ALBERS: Okay. Thank you. All right. I
20 think with that then we can call our first witness
21 which I believe is Mr. Nelson.

22 MR. FLYNN: Yes, it is.

1 JUDGE ALBERS: I think you can go ahead and
2 swear all four in who are lined up to testified to,
3 Mr. Nelson, Ms. McShane, Mr. Adams and Mr. Jones.

4 JUDGE YODER: Are they all in the room?

5 MR. ADAMS: Ms. McShane is not.

6 JUDGE YODER: Would you raise your right hands?

7 (Whereupon the witnesses were
8 duly sworn by Judge Yoder.)

9 CRAIG NELSON

10 called as a witness on behalf of Petitioners, having
11 been first duly sworn, was examined and testified as
12 follows:

13 DIRECT EXAMINATION

14 BY MR. FLYNN:

15 Q. Good morning, Mr. Nelson.

16 A. Good morning.

17 Q. Would you please state your name and title
18 for the record.

19 A. I am Craig Nelson, Vice President of
20 Regulatory Affairs and Financial Services.

21 Q. Mr. Nelson, I'll give the expedited
22 approach a try. In this proceeding did you prepare

1 and sponsor the following testimony and exhibits:
2 Filed on e-Docket on November 2, 2007, AmerenCILCO
3 Exhibits 2.0E and 2.0G, AmerenCIPS Exhibits 2.0G and
4 2.0E, and AmerenIP Exhibits 2.0G and 2.0E, and also
5 rebuttal testimony Ameren Exhibit 18.0 Second
6 Revised, and surrebuttal testimony Ameren Exhibit
7 42.0 Revised which has also been revised to reflect
8 the Judge's ruling striking certain of your
9 testimony, and Ameren Exhibit 42.1 Revised, a 2006
10 AMS cost allocation?

11 A. Yes, I did.

12 Q. With any corrections that you may have
13 reflected on those revisions, are those testimony,
14 pieces of testimony, and exhibits true and correct to
15 the best of your knowledge?

16 A. Yes, they are.

17 MR. FLYNN: Judge, as I mentioned earlier, the
18 Company intends to make an offer of proof of certain
19 materials that were filed on e-Docket on May 27,
20 specifically Ameren Exhibit 42.0, page 16, lines 296
21 to 308, and Ameren Exhibit 42.2.

22 Q. Mr. Nelson, did you sponsor those materials

1 as well?

2 A. Yes, I did.

3 Q. And are those materials true and correct to
4 the best of your knowledge?

5 A. Yes, they are.

6 MR. FLYNN: I also indicated, Judge, we will
7 not be making an offer of proof of lines 314 to 328
8 on page 17 of Ameren Exhibit 42.0 which is
9 Mr. Nelson's surrebuttal testimony.

10 JUDGE ALBERS: We will take up the
11 admissibility following cross examination.

12 MR. FLYNN: All right. To the extent that I
13 may have forgotten, I move for the admission of those
14 materials that Mr. Nelson identified and swore to.

15 JUDGE ALBERS: All right.

16 MR. FLYNN: And he is --

17 JUDGE YODER: You are only moving for the
18 admission of second revised rebuttal testimony, not
19 the initial or first revised, is that correct?

20 MR. FLYNN: That's correct, notwithstanding
21 their inexplicable appearance on our exhibit list
22 which is soon to be revised shortly, or another

1 filing cabinet will die. Thank you.

2 JUDGE ALBERS: Who would like to begin the
3 questioning of Mr. Nelson?

4 MS. VON QUALEN: I have a few questions from
5 Staff.

6 CROSS EXAMINATION

7 BY MS. VON QUALEN:

8 Q. Good morning, Mr. Nelson.

9 A. Good morning.

10 Q. First, I would like to refer you to -- I am
11 Jan Von Qualen. I represent the Staff witnesses of
12 the Illinois Commerce Commission. I have a few
13 questions for you. They are not meant to confuse
14 you, and I don't think they will.

15 If you would first look at your
16 surrebuttal testimony at page 9, lines 155 to 157?

17 A. I am there, thank you.

18 Q. You say the Rider VBA formula is designed
19 to recover only the utilities' fixed costs that are
20 reflected in the revenue requirement recovered via
21 the volumetric delivery charge, is that correct?

22 A. That's correct.

1 Q. Mr. Nelson, in Appendix A to your direct
2 testimony you state you are a certified public
3 accountant?

4 A. Yes, I am.

5 Q. I assume then that you took some basic
6 accounting classes like principles of accounting,
7 which had principles of accounting in them when you
8 were in school?

9 A. Yes, I did.

10 Q. In those courses did you learn the
11 difference between fixed and variable costs?

12 A. Yes, I did.

13 Q. Would you agree that the definition of a
14 fixed cost is an expense that tends to remain
15 constant in amount regardless of variations in volume
16 of activity such as real estate taxes, property
17 insurance, employee benefit expense and depreciation
18 expense on buildings?

19 A. I am sorry, were those examples of fixed
20 costs? I am really not clear on your question.

21 Q. Yes. Would you agree that those are
22 examples of fixed costs?

1 A. Yes, given a certain time frame, and I
2 don't know what time frame we are talking about.

3 Q. Yes, you agree that they tend to remain
4 constant in a given time frame?

5 A. Yes, they remain constant over a given time
6 frame. Clearly, for one day they are constant. They
7 could be constant over one year. They could be
8 constant over a longer period. Just clarifying that
9 some of those, yes, remain constant over a given time
10 period and could be considered fixed costs.

11 Q. In fixed costs the expenses incurred are
12 substantially independent of the level of operations,
13 would you agree with that?

14 A. In general that's correct, yes.

15 Q. All else being equal would these types of
16 costs remain fixed even if the utility expanded into
17 a new subdivision or the converse, if it lost
18 customers due to an industrial plant closing?

19 A. Some of them would. Some of them would
20 not. For example, you mentioned real estate taxes.
21 If we expanded operations in a new subdivision,
22 obviously there would be more real estate taxes. If

1 we sold property, there would be less real estate
2 taxes.

3 Q. Do the Ameren utilities include costs such
4 as real estate tax, property insurance, employee
5 benefits costs and depreciation expense in the
6 revenue requirements in these proceedings?

7 A. Yes, they do.

8 Q. Are real estate tax, property insurance,
9 employee benefits costs and depreciation expense
10 recovered via the volumetric delivery charge of the
11 utility?

12 A. I am not sure. Mr. Cooper, Ameren witness
13 Cooper -- I am the policy witness on this subject and
14 Mr. Cooper would better understand which costs are
15 included in fixed costs and which ones are not.

16 Q. Thank you, Mr. Nelson. Now if you would
17 turn to Exhibit 2 and I am looking at page 6, line
18 127.

19 MR. FLYNN: Gas or electric or does it matter?

20 MS. VON QUALEN: I am looking at electric. I
21 don't think that it matters.

22 A. I am there.

1 Q. There you see where you state, "As I have
2 already mentioned, Ameren Services has a number of
3 inherent cost advantages compared to unaffiliated
4 service providers"?

5 A. I see that, yes.

6 Q. Staff is aware of the studies done by
7 Mr. Adams in this case and in Ameren's previous rate
8 cases. But have the Ameren Illinois utilities
9 themselves in recent years compared the costs charged
10 by AMS which is Ameren Services Company for
11 individual services with the costs charged by
12 unaffiliated service providers?

13 A. Clearly, we have for some of the Ameren
14 services costs. I know, for instance, that human
15 resources compares their costs, benchmarks their
16 costs. I know that information technology benchmarks
17 their costs on a regular basis. And I am sure there
18 are others. Yes, on an ongoing basis we do benchmark
19 our costs against other companies.

20 Q. Have the results of any of those studies
21 been provided in the record in this proceeding?

22 A. I don't believe so because they were

1 piecemeal. And Mr. Adams' testimony and studies
2 tried to capture the whole ball of wax.

3 Q. How did the Ameren Illinois utilities
4 determine the prices from the unaffiliated service
5 providers when those studies were conducted?

6 A. I am having a little bit of difficulty
7 understanding the question, but I will try to answer
8 it. The price for Ameren Services is determined
9 based on the general service agreement approved by
10 the Commission. And so that's the price that the
11 utilities pay Ameren Services.

12 Q. I must have misstated my question. What I
13 meant to ask you was in those studies I just asked
14 you about if Ameren Illinois utilities themselves
15 study what the costs are for receiving services from
16 an unaffiliated vendor. How did the Ameren Illinois
17 utilities determine what the prices would be or the
18 costs would be from receiving services from an
19 unaffiliated source?

20 A. I am sorry, I misunderstood your question.
21 We use requests for proposals. For instance, in a
22 very recent study we compared a lock box which is

1 where customer payments are received and we did an
2 RFP asking for bids from an outside vendor, may be
3 multiple vendors, and compared that to doing it
4 internally. So on a routine basis we do RFPs to get
5 market prices from non-affiliate companies.

6 Q. Are there any other examples besides the
7 lockbox?

8 A. Yeah, there are many examples, and I
9 mentioned those in my testimony, Exhibit 2.0G
10 starting at line 201.

11 Q. I am sorry, I didn't hear your line number.

12 A. This is beginning at line 201 of my direct
13 testimony, 2.0, and I list, I don't know, 10, 15
14 examples, and there are more examples. For instance,
15 fairly recently we were outsourcing energy efficiency
16 support services and response support service. There
17 is a long list of examples where Ameren Services
18 supplements its own employees with services from
19 unaffiliated vendors, including the ones that I have
20 got in my testimony.

21 Q. Now, these examples of other studies that
22 have been done, were the studies done by the Ameren

1 Illinois utilities or were they done by the Ameren
2 Services Company?

3 A. To which studies are you referring?
4 Benchmarking studies or requests for proposal? I am
5 not clear.

6 Q. It doesn't matter. Either one.

7 A. I mentioned two benchmarking studies
8 previously, one for human resources and one for
9 information technology. If I remember correctly, in
10 those cases there is an outside group to which the
11 companies supply information and our costs are
12 compared to other companies, other similar companies.
13 So we have an outside firm doing that.

14 And then in the case of requests for
15 proposal, that's done internally. We do draft the
16 request for proposal, mail it to vendors, and then
17 compare and analyze results.

18 Q. So the items that you have on lines 203 to
19 212 that you previously directed my attention to,
20 that would be -- those studies or those inquiries
21 would have been done by Ameren Illinois utilities?

22 A. Those were done by Ameren Services Company

1 working with the Ameren Illinois utilities.

2 Q. Were any of them done independently by
3 Ameren Illinois utilities?

4 A. I am not positive. I think the bulk of
5 them were joint decisions made by Ameren Services
6 Company and the Ameren Illinois utilities and other
7 affiliates, if it impacted the other affiliates.

8 Q. Now I am looking at page 8 of the Exhibit 2
9 at line 194 where you say, "I should also mention
10 that Ameren Services selectively uses outside third
11 parties for purposes of cost control or service
12 delivery improvements. It is important to note here
13 that the experience and subject matter expertise of
14 Ameren Services is often needed to properly develop
15 outsourcing contracts and manage the ongoing
16 relationship. Direct outsourcing by the Ameren
17 Illinois utilities may require the development of
18 additional internal capabilities to effectively
19 manage the outsourcing arrangements which would add
20 additional costs."

21 Do you see that in your testimony?

22 A. Yes, I do.

1 Q. Would it be accurate to say that the Ameren
2 Illinois utilities do not yet have the internal
3 capabilities to effectively manage outsourcing?

4 A. No, that would not be correct because we
5 outsource more than just these A&G type services that
6 we are talking about here. The Ameren Illinois
7 utilities outsource many core functions within the
8 utilities themselves for services not provided by
9 Ameren Services Company. So we have the internal
10 capability in the utilities to do outsourcing, and we
11 rely on Ameren Services to help us in areas where
12 they have expertise.

13 Q. So if I change my question to say would it
14 be accurate to say that the Ameren Illinois utilities
15 do not currently have internal capabilities to
16 effectively manage outsourcing of A&G, would that be
17 correct?

18 A. It would be correct in part because some
19 A&G services are provided directly by the utilities
20 themselves and some are provided by Ameren Services
21 Company. And I have explained in my testimony that a
22 portion of our A&G costs are actually spent, recorded

1 and booked at the utilities and some also then comes
2 from Ameren Services Company. So when we think there
3 is a benefit for Ameren Services helping us, we go to
4 them. And when we think there is a benefit of doing
5 it internally, we do it internally.

6 Q. I am confused then as to why you made the
7 statement that direct outsourcing by the Ameren
8 Illinois utilities may require the development of
9 additional internal capabilities to effectively
10 manage the outsourcing management which would add
11 additional costs if Ameren Illinois utilities can do
12 so now.

13 A. And as I just explained, I said they can do
14 it for some types of services, but there is a
15 benefit, a cost benefit, for using Ameren Services
16 with other types of benefits. And I can explain by
17 example. Let's just look at the top two examples on
18 line 203 and 204 that both relate to information
19 technology. We have a great deal of expert -- of IT
20 information technology expertise in Ameren Services
21 Company. And we believe it is beneficial to
22 customers to let that group help us outsource these

1 two items and manage these two items for us, rather
2 than staffing up in the Ameren utilities themselves.

3 Q. I am moving on to a different topic again.
4 Is it your understanding that Mr. Adams who is
5 testifying in this case is testifying on behalf of
6 the Ameren Illinois utilities?

7 A. Yes, he is.

8 Q. One of the issues he is looking at is the
9 reasonableness of the AMS charges. Would you agree
10 with that?

11 A. Yes, he does look at the reasonableness.

12 Q. Would you agree that Mr. Adams' contract to
13 do work in this case is actually between him or
14 Concentric Energy Advisers and Ameren Services
15 Company?

16 A. I am not positive, but I accept that
17 subject to check.

18 Q. So Mr. Adams' client in this case would be
19 Ameren Services, would you agree with that?

20 A. His direct client clearly is Ameren
21 Services, but he is providing all of the service
22 directly for the Ameren Illinois utilities. So

1 indirectly he is providing service to us. And it is
2 our rate cases that caused the need for the service
3 to be provided, and it is our request from the Ameren
4 Illinois utilities to have Ameren Services hire him
5 to provide that service to us.

6 Q. I understand that. So Mr. Adams is being
7 paid by Ameren Services to determine whether the
8 charges passed along by Ameren Services to the Ameren
9 utilities are reasonable. Do you agree with that?

10 A. He is being paid and the Ameren Illinois
11 utilities are reimbursing AMS for all of his costs.

12 Q. Thank you. Now if you would turn to your
13 rebuttal testimony, Exhibit 18.0 Revised at page 19.
14 Looking at line 390, there is a question and answer
15 there about the personnel who work solely for Ameren
16 Illinois utilities, why are they employees of AMS
17 rather than Ameren Illinois utilities. Do you see
18 that?

19 A. Yes, I do.

20 Q. Have the Ameren Illinois utilities
21 performed an analysis as to whether there is a cost
22 associated with either of those, you reference,

1 intercompany billings or the creation of an Illinois
2 only service company?

3 A. And your question relates to the transfer
4 of those 565 employees I mentioned, and if they were
5 working for the Ameren Illinois utilities would there
6 be additional costs?

7 Q. Yes.

8 A. We have not performed that study, but what
9 I have said in my surrebuttal testimony is that I
10 thought of an alternative between rebuttal and
11 surrebuttal. And as I explained in my surrebuttal,
12 the alternative is to file a GSA, general services
13 agreement, with the Commission and ask the Commission
14 to approve letting us use service requests among the
15 three Illinois utilities, and using that approach I
16 don't believe there is any additional costs. It
17 would just be exactly replicating what's done in
18 Ameren Services right now.

19 So all the service requests relating
20 to those 565 employees, exactly as they are right
21 now, is transferred to the three utilities, and we
22 would just replicate that. So I don't think there is

1 any additional costs for customers.

2 Q. And did I understand then your answer that
3 pretty much this reference to intercompany billings
4 and an Illinois-only service company, you have kind
5 of left that and you have moved on to this other
6 alternative GSA idea?

7 A. That's correct. All three would work, but
8 we prefer the GSA the most.

9 Q. And there has been no study conducted as
10 far as the costs in the event there were the
11 intercompany billings and the creation of an
12 Illinois-only service company?

13 A. There has been no study. And as I
14 explained in my surrebuttal testimony, there is no
15 study needed because there is no additional costs.
16 We are going to replicate exactly what we have.
17 Nothing changes.

18 Q. Would you look at page 10 of Exhibit 42,
19 your surrebuttal? I am looking at line 172.

20 A. I see it.

21 Q. Where you say, "In particular, he does not
22 take into account the specific allocator approved by

1 the Commission in the GSA." Do you have a copy of
2 the GSA with you today?

3 A. No, I don't.

4 Q. This was attached to Mr. Lyon's testimony
5 as Exhibit 6.1.

6 MS. VON QUALEN: May I approach the witness?

7 JUDGE ALBERS: Yes.

8 BY MS. VON QUALEN:

9 Q. Mr. Nelson, are you familiar with the GSA?

10 A. Yes, I am in general.

11 Q. And are you familiar with the -- are you
12 somewhat familiar with the allocators in the GSA?

13 A. Somewhat familiar. Mr. Adams and Mr. Lyons
14 are more familiar.

15 Q. Well, we'll see what we can do with this.
16 And, obviously, if you can't answer the questions, we
17 will try someone else.

18 Now, do you have with you today a copy
19 of Mr. Adams' testimony?

20 A. I do not.

21 MR. FLYNN: Which testimony did you want him to
22 look at?

1 MS. VON QUALEN: I actually found a copy here,
2 and I am going to do a lot of cross on this, but I
3 need you to have this.

4 Q. I am going to hand you page 127 of Appendix
5 6 of Mr. Adams' testimony.

6 MR. FLYNN: Is that to his direct?

7 MS. VON QUALEN: Yes, 5.14, Appendix 6.

8 Q. Have you seen that before?

9 A. I have reviewed Mr. Adams' testimony, the
10 testimony itself, and several of his exhibits. I
11 don't know -- I don't remember seeing page 127 of 197
12 before, though.

13 Q. But you are familiar with the format and
14 the type of information that's contained on this?

15 A. Yes, I am.

16 Q. Would you agree that the project name for
17 this is Admin Support/Office EXP-Security?

18 A. Correct.

19 Q. And would you agree that the allocation is
20 called Indirect Function-039?

21 A. Yes, I agree.

22 Q. Are you aware whether that specific

1 allocator is contained in the GSA?

2 A. No, I am not.

3 Q. Can you find it in the GSA?

4 A. I can look if you would like me to look.

5 Q. I would, thank you.

6 A. Based on a quick review I don't see this

7 specific allocator.

8 Q. Did you look at the last page of the GSA.

9 It has the allocation numbers and descriptions.

10 Would you take a look at that?

11 A. All right. I don't see a 039.

12 Q. Now, if that allocator is not included in

13 the GSA, that specific allocator is not identified in

14 the GSA, in your opinion is Ameren prohibited from

15 using it?

16 A. I don't know the answer to that question.

17 I guess I would like to suggest that you ask that

18 question of Mr. Adams or Mr. Lyons who sponsored this

19 document.

20 Q. Thank you. Would you agree that the GSA

21 does contain an allocator called O&M Labor?

22 A. Could you point me to it, please?

1 Q. If you look about four-fifths of the way
2 down the page, 005A?

3 A. You are talking about the second to the
4 last page?

5 Q. Yes, I am sorry.

6 A. That's O&M what?

7 Q. O&M Labor?

8 A. I see it.

9 Q. Are you aware of any provision in the GSA
10 that would prevent the use of an indirect allocator
11 entitled Indirect Function Non-Fuel O&M?

12 A. Again, I just don't know. I am not the one
13 that sponsored this.

14 Q. That's fine. I am going to come up and
15 retrieve my copy of that page.

16 MR. FLYNN: Are we finished with that document?

17 MS. VON QUALEN: Yes.

18 Q. As a general matter are you aware of
19 whether there are other pages within that Ameren
20 Exhibit 5.14, Appendix 6, that would also include
21 allocators that are not included in the GSA? I am
22 asking if you know.

1 A. You will have to explain to me what the
2 exhibit that you just mentioned -- was that the GSA?

3 Q. The exhibit I just mentioned is the one
4 where I took that page that I just took back from
5 you. Ameren Exhibit 5.14 is the service request
6 review provided by Concentric?

7 A. Yes, I am familiar with those 197
8 documents, yes.

9 Q. And do you know whether there are any other
10 allocations included on those 197 pages which are not
11 included in the GSA?

12 A. I do not know.

13 Q. Now I am moving away from that document.
14 If you would look at your surrebuttal testimony,
15 Exhibit 42, page 13, and looking at line 237 where
16 you state, "In fact, the Ameren Illinois utilities
17 received a disproportionate amount of services from
18 AMS." Do you see that?

19 A. Yes, I do.

20 Q. Can you identify anywhere on the record
21 where Ameren identified or explained those
22 disproportionate services that Ameren Illinois

1 utilities received?

2 A. Yes.

3 Q. And where would that be?

4 A. I believe in my rebuttal testimony I
5 explained that there were over 500 employees, 500
6 plus employees, providing service, exclusive service,
7 to the Illinois utilities. And then turning the page
8 on that surrebuttal testimony I talked again about
9 the five -- more precise this time -- the 565
10 employees who presently work for AMS and provide
11 services exclusively to the Ameren Illinois
12 utilities. And, of course, that number came from --
13 and then I also mention that number on the record in,
14 I believe, 42.1 in Footnote Number 2.

15 And the source of that information
16 came from a response to a data request I provided, PL
17 4.02 Supplemental, where I actually identified the
18 565 employees who work exclusively for the Ameren
19 Illinois utilities and identified 164 employees that
20 work exclusively for AmerenUE.

21 Q. Did you provide anywhere in the record the
22 specifics of what those employees do?

1 A. I believe I just described it in general
2 several places where I explained that they were
3 working exclusively for the Ameren Illinois
4 utilities, and the specific descriptions of what they
5 do is in the supplemental response to PL 4.02.

6 Q. And is there anyplace on the record that
7 Ameren provides evidence to demonstrate that the
8 other Ameren subsidiaries received comparatively
9 fewer services?

10 A. Yes, there is.

11 Q. And where would that be?

12 A. Line 232 of my -- of Exhibit 42 where I say
13 in contrast there are only 164 employees in Ameren
14 Services Company working exclusively for AmerenUE.
15 So simple subtraction. There is 401 more employees
16 in Ameren Services Company providing exclusive
17 services to the Ameren Illinois utilities as compared
18 to the 164 in AmerenUE. So 400 extra in Ameren
19 Services providing service. That's why it is
20 disproportionate.

21 Q. So you provided the numbers, I understand
22 that. But did you provide anything from which Staff

1 could review the numbers and make a determination as
2 to whether in fact those are the numbers that need to
3 be, those are the numbers that should be, and those
4 individuals actually do work either for Ameren
5 Illinois utilities or their subsidiaries?

6 A. Yes, I did.

7 Q. Where is that?

8 A. The supplemental response to PL 4.02.

9 Q. And you entered that into the record?

10 A. That's not what you asked me. You asked if
11 I provided them, and I said yes.

12 Q. Okay. And is there anyplace in the record
13 that that information is provided?

14 A. I don't believe that -- I would have to ask
15 my attorneys. I don't believe that supplemental 4.02
16 is in the record, subject to check.

17 Q. Now, do you have with you a copy of your
18 supplemental response to PL 4.02?

19 A. Yes, I do.

20 Q. And Attachments 1 and 2?

21 A. I do, yes.

22 Q. If you look at Attachment 1, for the

1 activity under each company officer you identify the
2 services that are provided, is that correct?

3 A. Almost. For each -- these people are not
4 necessarily all officers. Some are managers. But
5 they did provide the services for each of these
6 various functions, yes.

7 Q. And you indicated that the reason these
8 services are provided through AMS is because it is
9 more efficient to provide the services for three
10 companies than to one individually, is that correct?

11 A. That is correct.

12 Q. In other words, there are efficiencies in
13 savings to be gained by having these 565 employees
14 provide services to all three Ameren utilities rather
15 than just working for one of the utilities, is that
16 correct?

17 A. Yes, that is correct, and we can achieve
18 the same efficiencies if we transfer these employees
19 to the Ameren Illinois utilities with the
20 Commission-approved general services agreement.

21 Q. Now, if you look at Attachment 2, would you
22 agree that it provides a breakdown of the number of

1 AMS employees who work exclusively for either the
2 Ameren Illinois utilities or AmerenUE in Missouri?

3 A. Yes, it does.

4 Q. Wouldn't you agree that it is possible that
5 if the economies of scale are to be realized for
6 providing services to the three Ameren Illinois
7 utilities, even greater economies could be realized
8 by providing those services to all four regulated
9 Ameren utilities?

10 A. No.

11 Q. No?

12 A. No is the answer I gave you, yes.

13 Q. Can you explain why not?

14 A. Well, we have analyzed off and on in the
15 Ameren Illinois utilities and Ameren Services who
16 should be providing services and striving for cost
17 containment and efficiencies. And in the case of
18 these, you are talking about Attachment 2, these 151
19 employees dedicated exclusively to Ameren Illinois
20 and the 164 dedicated exclusively to UE, we have made
21 the decision it is most effective for those people to
22 concentrate on either the Ameren Illinois utilities

1 or UE.

2 I can't speak for UE, but let me speak
3 for the Ameren Illinois utilities. We decided that
4 it is most effective and most cost-efficient, most
5 cost-effective, to have these 151 employees work
6 exclusively and be dedicated to the Ameren Illinois
7 utilities, no different than if they work in the
8 Ameren Illinois utilities dedicated full time to
9 service there.

10 The only reason they are in Ameren
11 Services is so that we can allocate the costs among
12 the three.

13 Q. Would it be correct to say that Ameren
14 Illinois utilities performed a study to make that
15 determination?

16 A. Performed a study to prove that it is --

17 Q. Not to prove, to determine, to find out
18 whether or not there would be economies of scale by
19 using the employees across four utilities rather than
20 being in all of them?

21 A. I am sorry, I was thinking while you were
22 asking. Have we or should we or what was the

1 question?

2 Q. I asked if you had.

3 A. I think I have already answered that. We
4 have not done a specific study. It's been a series
5 of thoughtful decisions over a period of time as to
6 what's the most cost-effective way to provide
7 service.

8 In some cases, for instance, for the
9 provision of information technology services, we
10 agree that there are cost efficiencies for providing
11 service to four utilities. And other services, let's
12 just pick one right here, David Sheppard (sp), this
13 is from Attachment 2, Resource Management, you know,
14 we are talking about large substation and
15 transmission projects on the Illinois side. It is
16 much more effective to have these people dedicated
17 solely to our three Illinois utility substations and
18 projects for, we believe, for cost purposes and
19 reliability purposes. It would be inefficient, more
20 costly and probably hamper reliability if we took
21 some of the time of these people and dedicated it to
22 UE.

1 And so case by case we have made the
2 decision is it better for them to serve the Illinois
3 utilities exclusively or to share. Services such as
4 accounting, information technology, treasury, we
5 agree, it makes sense to share them among the four.
6 But for these services we don't.

7 Q. Do the Ameren Illinois utilities have
8 anything that they could provide for the record or to
9 Staff so that, rather than just knowing that Ameren
10 Illinois utilities have made that determination, an
11 analysis could be made, the decision could be
12 reviewed, one would know how that decision was
13 arrived at?

14 A. You could also ask that question. Yes, we
15 could do a study, of course. We could do a study.
16 But we could also do a study of the people who are
17 already in the Ameren Illinois utilities as to why
18 they are in the Ameren Illinois utilities. We don't
19 see the need for a study if they are already in there
20 or a study that they are in the service company
21 solely for the reason of allocating costs. In either
22 case, whether they are in the Illinois utilities or

1 they are in AMS, solely for the reason of allocating
2 costs, we don't think a study is necessary.

3 Q. And one hasn't been performed?

4 A. One has not been performed.

5 MS. VON QUALEN: Thank you, Mr. Nelson. I have
6 no further questions.

7 WITNESS NELSON: You are welcome.

8 CROSS EXAMINATION

9 BY MS. LUSSON:

10 Q. Good morning, Mr. Nelson.

11 A. Good morning.

12 Q. My name is Karen Lusson. I am here on
13 behalf of the Attorney General's office.

14 If you could turn your attention to
15 page 20 of your direct testimony, I think it is
16 either gas or electric. You discuss there -- well,
17 first, let me backtrack, okay.

18 As I understand your rationale for the
19 promotion of costs or revenue recovery riders in this
20 docket, is that cost recovery of certain elements of
21 your cost of service through base rates materially
22 threatens your ability to earn your authorized rates

1 of return, is that correct?

2 A. That's correct.

3 Q. Now, it is true, isn't it, that neither the
4 companies nor any of the Ameren witnesses have
5 conducted any research or developed any specific
6 financial projections to quantify the extent to which
7 Rider VBA or Rider QIP is needed in order to mitigate
8 any future earnings attrition?

9 A. We have not done a study specifically on
10 how Rider VBA would mitigate that. We have provided
11 evidence, historical information, about how far we
12 are under-earning.

13 Q. Okay. In terms of looking on a forward
14 looking basis, though, there is no particular study
15 associated with how Rider VBA might affect earnings
16 attrition, is that right?

17 A. That's correct.

18 Q. Is that also true for Rider QIP?

19 A. That's correct. We have not done a forward
20 looking study.

21 Q. Now, you also say, I believe it is at page
22 10 of your testimony, that there currently is a

1 significant lag between the timing of changes in
2 costs and changes in rates. That's what's commonly
3 referred to as regulatory lag, would you agree?

4 A. Correct.

5 Q. Generally speaking, would you agree that
6 regulatory lag is affected by how often a utility
7 files a rate case?

8 A. That's one thing that does impact.

9 Q. Would another thing be whether or not a
10 utility chooses to file with a historical or a future
11 test year?

12 A. That might be another, yes.

13 Q. And if a utility chooses a future test
14 year, projected changes in cost revenues can be built
15 into rates; at least that's the main purpose of using
16 a future test year, is that right? Would you agree?

17 A. That's one purpose, yes.

18 Q. And to the extent that a company
19 successfully does that using a future test year,
20 would you agree that that might minimize regulatory
21 lag?

22 A. It might or it might not.

1 Q. Depending on whether or not their
2 projections were accurate?

3 A. Depending upon that and upon cost increases
4 that were higher or lower than projected. And that's
5 the beauty of a rider. It takes the guesswork out.

6 MS. LUSSEN: I would move that the witness be
7 instructed to respond to the question asked. He is
8 giving a speech.

9 JUDGE ALBERS: Keep that in mind, Mr. Nelson.

10 BY MS. LUSSEN:

11 Q. Now, it is correct that the Ameren
12 utilities chose a historical test year for this
13 consolidated docket, is that right?

14 A. I am sorry, I was thinking about the ALJ's
15 comment. Yes, sir, I will.

16 Please restate that.

17 Q. It is correct that Ameren chose a
18 historical test year for purposes of this docket, is
19 that correct?

20 A. That is correct.

21 Q. Now, back on page 10 you go on to say that
22 during this time a utility can significantly

1 under-earn its return, is that right?

2 A. Could you show me where I said that? I
3 agree in general, but --

4 Q. Line 253 on page 10.

5 A. Yes, I did say that.

6 Q. It is correct generally speaking that the
7 opposite can be true, isn't it, that during the time
8 of regulatory lag a utility can significantly over
9 earn or at least over earn to some degree with the
10 over-earnings then retained by shareholders?

11 A. It is theoretically possible, yes.

12 Q. Now, within the instant document would you
13 agree that regulatory lag has worked out well for
14 CIPS -- CILCO gas shareholders given that the company
15 currently -- or Ameren shareholders with respect to
16 CILCO gas, given that the Company currently is over
17 earning?

18 A. That has worked to our advantage, and
19 that's why we filed the gas rate case asking for a
20 decrease.

21 Q. In your opinion if a company is earning
22 above its authorized return, would you agree that

1 that company has recovered its fixed costs?

2 A. Possibly that's true. There could be other
3 reasons why it is over earning. It depends on
4 whether you look at cost causation line item by line
5 item or not.

6 Q. But to the extent if a utility is over
7 earning, certainly there are revenues coming into the
8 company that are covering its fixed costs, would you
9 agree?

10 A. Correct.

11 Q. In your opinion if a utility is earning
12 below its authorized return but is still earning a
13 profit, that is, revenues exceed expenses, is the
14 company recovering its fixed costs, all else being
15 equal?

16 A. No, I don't think I can agree with that.
17 Clearly, if it is under earning, you can't point to
18 any specific thing that it is recovering in full.

19 Q. So you are disagreeing with me because of
20 the inability to correlate a specific fixed cost with
21 a specific revenue stream?

22 A. That's correct.

1 Q. Is that the basis for your belief?

2 A. That's correct.

3 Q. Would you agree that, however, if a utility
4 is earning below its authorized rate of return but
5 revenues exceed its fixed costs, that -- strike that.
6 Let me ask this.

7 Does the Company, does Ameren, believe
8 that paying dividends is a fixed cost?

9 A. In the minds of investors I would think
10 they would think it is a fixed cost. And keeping
11 that in mind, I believe management would also
12 consider that it is a fixed cost, yes.

13 Q. Do you believe the Commission should
14 consider, it is appropriate to consider, dividends a
15 fixed cost of the utility, the payment of dividends?

16 A. We are going to have to agree on the
17 definition of fixed costs. I believe the Commission
18 should consider the importance of regular payment of
19 dividends so that the investment community continues
20 to provide equity and debt to the utilities for the
21 best interest of customers.

22 Q. What would you list as utilities' fixed

1 costs? I mean, fixed costs is used as a basis for
2 Rider VBA in this document. Can you sitting here
3 today list everything that you would consider to be a
4 fixed cost?

5 A. No, that's --

6 MR. FLYNN: Objection to the form of the
7 question. There was a question and then counsel made
8 a characterization which she then didn't ask the
9 witness to comment on. It was just assumed. And
10 then she asked another question which may or may not
11 have been the same as the first question. There were
12 a lot of moving parts.

13 MS. LUSSON: I will be happy to rephrase the
14 question.

15 JUDGE ALBERS: Thank you.

16 BY MS. LUSSON:

17 Q. Is it the Company's position that it needs
18 Rider VBA in order to recovery its fixed costs due to
19 declines in usage per customer that the Company sees
20 occurring?

21 A. That's correct with one minor exception.
22 It is our delivery service fixed cost, yes.

1 Q. So, generally speaking, what does the
2 Company consider to be the fixed costs of the Company
3 versus variable costs?

4 A. As I answered earlier up here on the stand,
5 I would prefer to have our witness Bill Cooper answer
6 that. He knows specifically which costs are fixed
7 and which ones are variable that he wants to
8 include -- that we want to include in the rider, and
9 I would be speculating.

10 Q. Okay, I would be happy to ask him. Thank
11 you.

12 Now, page 20 of your testimony at
13 lines 468 through 470, you state that declines in
14 usage when using a volumetric delivery charge as the
15 means of cost recovery cause a utility to
16 under-recover its Commission-approved revenue
17 requirement, thereby causing a shortfall in earnings.
18 Do you see that?

19 A. Yes, I do.

20 Q. What do you mean by the word "shortfall"?
21 How do you define that word?

22 A. A level of earnings that's less than the

1 allowed -- the Commission allowed permitted rate of
2 return on rate base.

3 Q. Isn't it true that, all else being equal,
4 at the time of this reduced usage per customer
5 overall revenues can increase due to increases in the
6 number of customers?

7 A. I am sorry, can increase or did increase?

8 Q. Can increase.

9 A. It is possible that revenue can increase as
10 new customers are added to the system, yes.

11 Q. Isn't it also true that if the Company
12 reduces its labor costs and thereby its cost of
13 service, it's variable cost of service, that a
14 shortfall may not occur if these savings offset usage
15 per customer decline, generally speaking?

16 A. That's possible, yes.

17 Q. Now, as I understand the Company's
18 decoupling proposal, it will adjust customer rates
19 each month to insure that a benchmark level of per
20 customer revenue is achieved, is that right?

21 A. That's correct.

22 Q. It is also true that if the decoupling

1 formula is used, it does not track or account for
2 increases in revenue associated with growth in the
3 number of customers, is that right?

4 A. As I understand it, that's correct.
5 Mr. Cooper could better answer that question.

6 Q. It is also true that the Company's
7 decoupling proposal does not examine what's happening
8 with the Company's cost of service on a monthly
9 basis, does it?

10 A. It does not, and that's why we have offered
11 the rate of return report to be filed with the
12 Commission.

13 Q. Now, on page 20 you discuss what you say
14 are the primary causes of gas delivery service sales
15 being different than forecasted usage which you
16 described are weather, a general decline in natural
17 gas usage and response to targeted energy efficiency
18 programs, is that right?

19 A. That's correct.

20 Q. Now, the phrase "general decline in gas
21 usage," is it fair to say that that would be due to
22 either conservation, customers dialing down to save

1 money, dialing down their thermostats, that is,
2 and/or the prevalence of more energy efficient
3 appliances?

4 A. It is primarily -- what I had in mind when
5 I wrote that was primarily the latter. It is
6 customers replacing old, inefficient appliances with
7 more efficient appliances. And as I explained in my
8 testimony, it is that no new uses for natural gas are
9 being found. In fact, some people are switching to
10 the electrical side. So those two things account for
11 the decline in gas usage.

12 Q. Per customer?

13 A. Per customer.

14 Q. Now, the third response to targeted energy
15 efficiency programs you state hasn't had an impact
16 yet, is that right, or at least none that the Company
17 has measured?

18 A. We have not measured the impact. It could
19 have impacted us, yes.

20 Q. What -- I know the Company is in the
21 process of putting together or proposing, at least
22 assuming it gets a decoupling rider, a gas energy

1 efficiency program. Does the Company have any gas
2 energy efficiency programs to speak of besides the
3 one being developed?

4 A. Not to my knowledge.

5 Q. Have you or the Company ever measured or
6 identified what the impact is of weather in
7 particular on the declining per customer natural gas
8 usage versus other causes of the declines that you
9 have identified, the two other causes?

10 A. I was going to say yes until you put the
11 addendum. Yes, we do weather normalize on a routine
12 basis. We do analyze the impact of weather on per
13 customer usage. I don't know if we compare -- then
14 did you ask if there is a comparison of that to the
15 other two?

16 Q. Yes.

17 A. I don't know. I don't think we have any
18 specific data identifying general declines in natural
19 gas usage and, as I explained earlier, no specific
20 data on targeted gas energy efficiency measures. We
21 do have data, though, on weather.

22 Q. So given the fact that you said you have

1 data on weather, do you know percentage-wise, if you
2 divide it into three categories, targeted energy
3 efficiency programs, general declining natural gas
4 usage per customer and weather, of those three what
5 percentage of that is weather, if you know?

6 A. I don't know.

7 Q. Did the Company ever consider proposing a
8 weather normalization rider, rather than the partial
9 decoupling mechanism proposed here?

10 A. I don't remember that being discussed in
11 the context of this rate case.

12 Q. Was it ever discussed before the People's
13 gas rate order?

14 A. We have talked for -- remember, I have been
15 around for a long time, since 1979 in the business.
16 And, yes, at CIPS and the Ameren Services and now at
17 the Ameren Illinois utilities in general we have
18 talked about weather normalization such as that, but
19 not recently, not in the context of this rate case.

20 Q. Is it the Company's position that unless it
21 attains approval for Rider VBA towards gas delivery
22 utilities, it will no longer be able to provide safe,

1 reliable gas delivery service?

2 A. I don't believe we have ever said that.

3 Q. Now, at page 25 of your direct testimony
4 you state that you will only invest the six and a
5 half million into energy efficiency programs, for the
6 gas utilities, that is, if a decoupling rider is
7 approved, is that right?

8 A. It is right in part. I said up to. I
9 can't find the line that you said, but I said up to
10 six and a half million only if the Commission
11 approves the decoupling rider.

12 Q. Is it an all or nothing proposition? In
13 other words, if you don't get a decoupling rider will
14 the Companies still plan on investing in energy
15 efficiency programs for its customers with respect to
16 any dollar amount?

17 A. Keep in mind as I answer that question that
18 we will obey all lawful Commission orders. So if you
19 say -- it is all or nothing unless the Commission
20 takes some other action, yes.

21 Q. It is correct, isn't it, that the Company
22 has not performed a study to determine whether a

1 decoupling rider will reduce customer incentives to
2 turn down their thermostats or otherwise conserve
3 energy?

4 A. We have not performed that particular
5 study.

6 Q. It is correct, too, isn't it, that the
7 Company has not performed a study to determine
8 whether a decoupling rider will renew customer
9 incentives to invest in more energy efficient
10 appliances?

11 A. No, we have not performed a study like
12 that.

13 Q. It is correct, too, isn't it, that the
14 Company has not performed a study to determine
15 whether a decoupling rider will reduce customer
16 incentives to participate in any Company-sponsored
17 gas energy efficiency program?

18 A. We have not performed a study along those
19 lines.

20 Q. With respect to your discussion of general
21 declines in natural gas usage per customer, I would
22 like to show you what I will mark as AG Cross Exhibit

1 1.

2 (Whereupon AG Cross Exhibit 1
3 was marked for purposes of
4 identification as of this date.)

5 Now, AG Cross Exhibit 1 is a study
6 conducted by the American Gas Association entitled
7 Energy Analysis of the Forecasted Patterns in
8 Residential Natural Gas Consumption 2001 through
9 2020. Now, Mr. Nelson, have you ever seen this study
10 before?

11 A. I have not seen it.

12 Q. Okay. Now, you have just indicated you
13 have not seen this study. Is Ameren a member of the
14 American Gas Association?

15 A. We are a member, and I have great respect
16 for the organization.

17 Q. So I understand -- and just to clarify, I
18 am not going to be moving this study into the record
19 for the truth of the matter asserted, but I would
20 like to ask the witness some questions about this
21 study to see if he agrees with some of the
22 conclusions made in there.

1 Now, if you look at the first page
2 there, this report states that per customer natural
3 gas usage has been declining since 1980. Would you
4 agree that the declines in natural gas usage per
5 customer have been going on for more than 20 years as
6 this report suggests?

7 A. I have no reason to doubt that they have
8 been declining for 20 years.

9 Q. Now, the report also states --

10 MR. FLYNN: Judge, I am sorry, if counsel is
11 not going to seek the admission of this and is not
12 offering any statements in there for the truth of the
13 matter asserted, it seems to me that she can simply
14 ask the witness whether he agrees with certain
15 conclusions, without referring to the study
16 whatsoever.

17 For example, with respect to the last
18 question, she could say, "Wouldn't you agree that
19 residential per customer or per residential customer
20 usage has been declining for 20 years." In that
21 regard the reference to the study adds nothing to the
22 question whatsoever. She can use it as her own

1 guideline. But there is no reason that we have to
2 continuously refer to a study that is not destined
3 for the record and by counsel's own admission is not
4 being offered for the truth of the matter asserted.
5 We are simply cluttering the record here and making
6 me antsy.

7 JUDGE ALBERS: Ms. Lusson.

8 MS. LUSSON: I certainly wouldn't want to make
9 you antsy.

10 MR. FLYNN: I know. It's abhorrent.

11 MS. LUSSON: But I would be happy to offer it
12 into the record for the truth of the matter asserted.
13 But I think that, given the fact that the witness
14 said that he hasn't seen it before, he is not the
15 author of the study, I wanted to clarify that prior
16 to the objection that I had anticipated.

17 But, secondly, I think the study is
18 useful for purposes of this witness and the questions
19 that I am asking him because I am -- you know, there
20 he has indicated that Ameren is a member of the
21 American Gas Association, he respects the
22 association, and here in living proof is some

1 conclusions made by the American Gas Association
2 regarding the phenomena of natural gas usage per
3 customer declining.

4 So I think it is helpful for the
5 purposes of the questions that I want to ask this
6 witness.

7 MR. FLYNN: Judge, it may be helpful to
8 Ms. Lusson. I don't think it is helpful to the
9 record. And while I have never met her before and I
10 am sure she is a very fine person, I don't know that
11 this is a study from the American Gas Association.
12 Sure, that's what it says but the witness hasn't
13 validated that. In fact, he has said that he has
14 never read the study. So the foundation has not been
15 laid.

16 And, again, I suggest that counsel can
17 use whatever she wants as a guideline for her own
18 questions. But to refer to this document for which
19 no foundation has been laid other than that the
20 Ameren utilities are members of the American Gas
21 Association, it is completely inappropriate.

22 MS. LUSSON: Well, one more, if I could reply

1 briefly. I think it was appropriate to give the
2 witness a context for my questions. That was the
3 purpose of it. I don't believe -- you know, I would
4 be happy to say do you have any reason to believe
5 that this is not a copy of the September 21, 2004,
6 study, if that would satisfy counsel's request for
7 more foundation.

8 JUDGE ALBERS: Would that satisfy you?

9 MR. FLYNN: It wouldn't satisfy me.

10 JUDGE ALBERS: I didn't think it would.

11 MR. FLYNN: But I think the standard is whether
12 it would satisfy you.

13 JUDGE ALBERS: Generally, I am inclined to
14 agree with you, Mr. Flynn. If you are not going to
15 be moving for admission of it, if you want to refer
16 to that as the basis for your questions, that is
17 fine. But as far as beyond that, we are going to
18 rule as Mr. Flynn characterizes it.

19 BY MS. LUSSON:

20 Q. Mr. Nelson, do you have any reason to
21 disagree with the notion that -- an American Gas
22 Association conclusion that usage per customer has

1 been declining since 1980?

2 MR. FLYNN: Objection. It is not established
3 that the American Gas Association has reached that
4 conclusion. The question started out just fine. "Do
5 you have any reason to disagree with this notion?"
6 It is clear that what Ms. Lusson is attempting to do
7 is validate the assumptions or conclusions stated in
8 her question with a study for which no foundation has
9 been laid. So she is just trying to get the study
10 into the record without actually offering it.

11 Again, if she wants to ask the witness
12 to agree with a particular proposition, okay, it is
13 her cross examination. But she is trying to feed
14 this study into the record. It is completely
15 inappropriate, and I thought we just established that
16 we couldn't do that.

17 MS. LUSSON: That is absolutely not true that I
18 am trying to feed this study into the record. I am
19 using this as a basis for the question about usage
20 decline since 1980.

21 JUDGE ALBERS: Fine, but I see Mr. Flynn's
22 point and I agree with him that you can use that

1 without referring to the study.

2 BY MS. LUSSON:

3 Q. Mr. Nelson, do you -- in your opinion, has
4 natural gas usage per customer been declining for at
5 least 20 years?

6 A. I am not positive. All I can say is that,
7 with certainty, is that if you look at line 504 of my
8 direct testimony, I do explain what it has done since
9 June 30, 2002, and I can respond with certainty on
10 that. In 14 out of 15 cases there has been a
11 decline.

12 Q. And do you have any reason to believe that
13 it hasn't been going on for longer than 2002?

14 A. I would speculate it has been going on
15 longer.

16 Q. Can you speculate as to whether or not it
17 has been going on ten years, at least ten years?

18 A. I am not sure.

19 Q. Now I would like to turn your attention to
20 your discussion of your Rider QIP. At page 9 of your
21 surrebuttal testimony, at line 141 you suggest
22 another modification to Rider QIP in response to

1 concerns raised by Mr. Kahle and Mr. Brosch, do you
2 see that?

3 A. Yes, I do.

4 Q. And you indicate that the Company would be
5 willing -- there in that phrase, is Ameren advocating
6 this change or not?

7 A. Yes, we will advocate it. I think the
8 points they raise are valid and should the Commission
9 approve this rider, I think that we should include
10 this provision.

11 Q. Now, as I understand it, Mr. Cooper has
12 actually inserted the new language you mentioned at
13 line 146 of your surrebuttal testimony into the new
14 QIP tariff, is that right?

15 A. I am not positive he has done that.

16 Q. What is meant by your use of the word
17 "documented" at line 141?

18 A. What I am talking about there is the
19 assumption that the Commission would require the
20 Ameren Illinois utilities to file a cost benefit
21 study when they ask for recovery -- recovery through
22 Rider QIP. And then by documented, I am implying

1 that if such savings were identified in that cost
2 benefit study and if the Commission directly approved
3 the results of that cost benefit study, then the
4 operational savings would be subtracted from the
5 revenue requirement allowed in recovery.

6 Q. So only savings identified in the cost
7 benefit study would be subtracted, is that right?

8 A. Correct, and then assuming such expense was
9 previously included in base rates.

10 Q. Okay. So the Company would have the burden
11 of producing documentation for each expected O&M
12 savings offset for Rider QIP investments, is that
13 right?

14 A. Yes, the Company would have the burden of
15 proof for any type of costs it included to be
16 recovered through Rider QIP.

17 Q. Now, it is correct also that the Company
18 has not made any determination as to which capital
19 expenditure projects it will be proposing under Rider
20 QIP, is that right?

21 A. That is correct.

22 Q. So, in fact, no cost benefit study has been

1 done yet, is that right?

2 A. That's correct.

3 Q. On any particular project?

4 A. For purposes of QIP recovery, yes.

5 Q. Now, looking forward into that process,

6 would you agree that when a new investment in

7 technology is made, it is quite possible for the O&M

8 savings to occur on a delayed basis well after the

9 technology is deployed?

10 A. It is possible, yes. As I point out in my

11 testimony, though, most of system modernization

12 savings are not directly related to O&M savings.

13 They are related to other things such as increased

14 reliability, more options for customers, etc.

15 Q. How would the Company, if there are

16 identified savings associated through investments

17 that will occur on a delayed basis, how will the

18 Company go about correlating that savings with the

19 actual capital expenditure investment that is

20 reflected in Rider QIP?

21 A. It would have to be part of the documented

22 operational savings included in the cost benefit

1 analysis. That's where the correlation would take
2 place.

3 Q. Now, for example, how would you insure that
4 labor reductions over time, associated with new
5 technology investments, aren't just chalked up to,
6 say, attrition?

7 A. Well, once again, let's be specific with --
8 let's say that we want to go from meters that are
9 read by utility men versus two-way Smart meters that
10 are read electronically, and so we do a cost benefit
11 study on the advantages and costs and benefits of
12 that. And part of the savings that we would document
13 would be labor savings. And that would be filed with
14 the Commission. And those labor savings may not
15 occur in year zero or year one, but they will occur
16 in some future year. We will identify them, the
17 savings, and the Commission would approve that as
18 part of its overall cost benefit analysis.

19 Q. And in your opinion would the Company be
20 able to identify, you know, whether or not something
21 occurred in terms of labor reductions as a result of
22 an Ameren policy to reduce labor costs versus as a

1 result of a specific AMI investment?

2 A. I think Ameren would, yes. When you do a
3 cost benefit study, you are estimating future savings
4 based on actions to be taken. And we would identify
5 both the estimated savings and the actions that would
6 achieve those savings. After the fact, we can
7 identify whether those action steps had actually been
8 carried out. And if they have, one would assume that
9 the savings would have occurred. And those would be
10 the savings that we would roll back to customers.

11 Q. And those roll backs would occur perhaps
12 not in the same year that the investment was made but
13 sometime in the future?

14 A. It could be, yes.

15 Q. Would there be any sort of timeline
16 associated with delayed savings associated with new
17 technology investments?

18 A. Yes, I think there would be. As I envision
19 a spreadsheet, for instance, that does the cost
20 benefit analysis, it would have year by year costs
21 and year by year savings.

22 Q. And when I say timeline, I am talking about

1 a time -- perhaps I should have said a time limit.

2 If savings occur down the line associated with AMI
3 technology, is there any sort of limit on the number
4 of years that can pass before those savings can be
5 attributed to an investment that occurred, say, many
6 years before?

7 A. There is an indirect one on this.

8 Mr. Cooper may have to answer this. But I believe
9 that -- trying to remember whether we offered this or
10 not. But I believe there is a limit as to how long
11 we would recover through Rider QIP, if it was three
12 years or five years. I am sorry, that may have been
13 in response to a DR. I am not sure.

14 Q. You are talking about the recovery of the
15 financing of the project?

16 A. I am talking about recovery of QIP
17 investments. And now that I think about it, I think
18 there was a DR that asked us how long would that go
19 on. And the response was, of course, until the next
20 rate case, when it is rolled into the rate case. And
21 there could be some limiter put on, such as a three
22 or five-year limiter. Again, I don't remember

1 whether that was testimony or DR.

2 Q. Does the Company know today when it will be
3 filing its next rate case?

4 A. Not with certainty.

5 Q. Will the Commission's approval of whether
6 or not the Commission approves Rider VBA and Rider
7 QIP affect the Company's timing of its next rate
8 case?

9 A. It will be one of the factors that the
10 Company uses to decide when to file the next rate
11 case, yes.

12 Q. You would agree, wouldn't you, then, that
13 it is within the Company's control as to whether it
14 will file the next rate case unless otherwise ordered
15 by the Commission, isn't it?

16 A. Well, it is clear that it is an action that
17 the Company has to undertake. Events could occur,
18 though, that are out of our control that would cause
19 us to do that, to file a rate case.

20 Q. Now, to your knowledge is there anything in
21 Rider QIP that limits the number of years that a
22 particular plant investment can be financed through

1 Rider QIP?

2 A. As I explained earlier, I am not positive.
3 As I said, Mr. Cooper, I think, could answer that
4 question.

5 Q. Now, one of the benefits I have heard from
6 other companies talking about automated meter
7 infrastructure or AMI is that it creates the ability
8 to remotely disconnect customers, is that your
9 understanding?

10 A. That's one of the benefits, yes.

11 Q. And if that is the case, that would lead to
12 reduced uncollectibles, wouldn't it, potentially?

13 A. Potentially it would, yes.

14 Q. Uncollectibles currently are factored into
15 the rates that ratepayers pay as part of the
16 utilities' cost of service for both gas and electric
17 utilities, aren't they?

18 A. Correct.

19 Q. So how would the Company go about measuring
20 the savings associated with uncollectibles when
21 incorporating costs attributable to AMI
22 infrastructure when incorporating that savings into

1 the Rider QIP surcharge mechanism?

2 A. I am not completely sure how it would.

3 Some of the things the Company would consider,

4 though, would be the number of hours or number of

5 days that are saved, how much earlier the

6 disconnection is than if it were done manually and,

7 you know, what is the revenue impact of that and the

8 time value of money impact of that as well. So based

9 on certain assumptions on the time period and the

10 cost of money, some savings could be made.

11 Q. But you are not exactly clear at this point

12 how exactly that would be done?

13 A. That is correct.

14 Q. Now, at line 142 of that same page you use

15 the words "directly attributable." What if savings

16 are indirectly attributable to the deployment of new

17 technologies? Would they be ignored or somehow

18 incorporated into the QIP reduction data?

19 A. When I wrote those words "directly

20 attributable," my thoughts were similar to what I

21 described earlier. The savings in costs in the cost

22 benefit analysis that we filed with the Commission

1 and the savings in costs year by year that the
2 Commission approves would be the ones directly
3 attributable. So if they are not in that cost
4 benefit analysis, they are not directly attributable.

5 Q. And just so I understand the process then,
6 this would be a part of the QIP filing, which I think
7 either you or Mr. Cooper testified would occur in
8 April, is it?

9 A. That's correct.

10 Q. Now, do you envision that to be a docketed
11 proceeding?

12 A. Yes, I do.

13 Q. And will there be a time limit on that
14 proceeding?

15 A. We suggested that we file no later than
16 April 1 of each year, and we suggested in our tariff
17 that recovery would begin on January 1 of the
18 following year. So that in essence is the time limit
19 that we are suggesting.

20 Q. So essentially then Staff and Intervenors
21 and any interested party and the Commission would
22 have eight months to determine whether or not it

1 agrees with the cost benefit identified savings the
2 Company has presented, is that right?

3 A. Almost right at nine months.

4 Q. Nine months. Forgot April.

5 A. Okay.

6 Q. Would you agree that there would be a
7 possibility that there might be some controversy as
8 to whether or not savings were correctly attributable
9 to new technology?

10 A. Yes, I do. I think it would be a litigated
11 proceeding and parties would have differences of
12 opinion.

13 Q. Would you agree as part of that proceeding
14 that it would be necessary to examine the kinds of
15 information that you would file in a rate case such
16 as an operating income statement, a rate base
17 presentation, the kinds of things you would find in a
18 Part 285 filing?

19 A. I am not exactly sure what the Commission
20 would choose to consider as part of this proceeding,
21 but clearly it could consider those type of things.
22 And if the Commission had any doubt that the Company

1 or if the Commission suspected the Company would be
2 over earning, it doesn't have to approve the
3 investment and recovery from QIP.

4 Q. At this point what does the Company propose
5 it would file along with that cost benefit study so
6 that the Commission could clearly understand how the
7 technology had affected its operation and maintenance
8 expense?

9 A. We have already offered to file the annual
10 rate of return report. We are filing quarterly rate
11 of return reports. The Commission would have that
12 information available.

13 Q. So other than the cost benefit study and
14 then the listing of the projects that the Company
15 proposed, it would be that two-page rate of return
16 filing for each company in terms of accounting
17 information, financial information that the
18 Commission would review?

19 A. The cost benefit study could be very large
20 and have many things in it, studies, data. So when
21 you say all, there could be a huge amount of
22 information included in the cost benefit study.

1 Q. And would you be performing that cost
2 benefit study or other employees of the Company?

3 A. I would be involved. I don't know if I
4 would be the one leading the project.

5 Q. Would you agree that today generally the
6 Company finances new plant investment through
7 internally generated funds such as depreciation
8 expense that is built into rate base as well as the
9 issuance of debt from capital markets?

10 A. It finances part of its construction needs
11 through internally generated funds and the remainder
12 is financed by going to the market.

13 Q. Would you agree that under that traditional
14 method of financing plant investments any
15 efficiencies or cost savings achieved generally
16 speaking through the installation of new technology
17 are automatically incorporated into rates with the
18 test year filing requirements?

19 A. I agree that the test year would include
20 cost of service for the test year, if that's what you
21 are trying to say, yes, and that would include
22 savings achieved and costs incurred during the test

1 year.

2 Q. Is it the Company's position that unless it
3 obtains approval for Rider QIP, it will no longer be
4 able to invest in infrastructure additions necessary
5 to provide safe, reliable electric delivery service?

6 A. No, I have not said that.

7 Q. Is it correct that there may be some
8 revenue streams that the Company doesn't already
9 experience now associated with the investment in new
10 technology such as automated metering infrastructure?

11 A. Yes, I am aware that there is potential
12 funding from the Department of Energy for Smart-Grid
13 investments, although Congress has not funded that.
14 And, clearly, as we know, there is a statewide
15 Smart-Grid initiative where the Galvin Institute has
16 kicked in some money. I am not sure of the extent of
17 that. But, yes, there are other funding sources as
18 well.

19 Q. Outside of those funding sources, is it
20 possible that investment in Smart-Grid will generate
21 revenues through the technology's ability to provide
22 customer usage information and other possible

1 services?

2 A. It is possible, but we have not studied the
3 revenue possibilities associated with that.

4 Q. So in regard to any kind of allocation of
5 revenues, there has been no analysis conducted and no
6 decisions have been made as to what to do with those
7 revenues, is that right, if they occurred?

8 A. We don't even know if they occur. And if
9 they do occur, we have not studied how they should be
10 allocated.

11 Q. And is it also correct that the Companies
12 have not determined what specific non-essential
13 services the Company believed could be provided by
14 Smart-Grid investments financed through Rider QIP?

15 A. We don't know what specific non-essential
16 services Smart-Grid would provide.

17 Q. Turning your attention to your rebuttal
18 testimony, page 12, at line 232 you mention several
19 omissions in Rider QIP that were asserted by
20 Mr. Brosch relating to the updates to the
21 depreciation reserve, deferred taxes and O&M expenses
22 which we just discussed. Do you see that?

1 A. Yes, I do.

2 Q. Is it true that you are modifying in your
3 surrebuttal with respect to your reflection of
4 savings, but have made no changes to Rider QIP for
5 updating the depreciation reserve or for deferred
6 taxes associated with QIP investments?

7 A. What we have promised in our testimony is
8 to file rate of return reports which will contain
9 updates for depreciation reserves, deferred taxes and
10 O&M expenses.

11 Q. Let me show you what I will mark as AG
12 Cross Exhibit 2.

13 (Whereupon AG Cross Exhibit 2
14 was marked for purposes of
15 identification as of this date.)

16 AG Cross Exhibit 2 is the Company's
17 response to AG Data Request 8-10. Do you recognize
18 this response?

19 A. Yes, I do.

20 Q. And in your response to Parts A through G
21 of that request you seem to suggest that the annual
22 rate of return reports that you just mentioned will

1 serve to protect against over earnings despite the
2 decision not to include those, what Mr. Brosch
3 characterizes, as omissions from the Rider QIP tariff
4 associated with depreciation reserve and the deferred
5 taxes. Would you agree?

6 A. It's a very long question. Let me restate
7 what I think you asked me. I think you asked me if
8 in Rider QIP we agree to file these rate of return
9 reports, and we did. And these rate of return
10 reports do have updates, automatic updates, for the
11 three cost items you mentioned.

12 Q. And the attachment to this data request
13 response is a red-lined version of the Rider QIP
14 tariff which incorporates the changes that the
15 Company has made, is that right?

16 A. Yes, it does.

17 Q. Now, if you would look at the red-lined
18 attachment showing changes to the Rider QIP, can you
19 identify anyplace where the deferred taxes created by
20 new QIP investment are recognized?

21 A. Yes.

22 Q. Where would that be?

1 A. I am trying to figure out the page. Oh,
2 yes, it is on page, original sheet number 43.006, at
3 the bottom, and in that Subsection E. As part of the
4 annual reconciliation, the Company shall also file an
5 annual rate of return report that shall contain
6 operating revenues, operating expenses and rate base
7 as of the most recently completed calendar year.
8 Obviously, figured in the operating expenses would be
9 the three that Mr. Bosch is concerned about.

10 Q. Okay. So it is the Company's position then
11 that the rate of return reports that it would file
12 would reflect what Mr. Brosch is discussing in his
13 testimony?

14 A. Reflects those three cost items. It may
15 not do exactly what Mr. Brosch wants, but it does
16 give the Commission an update of depreciation
17 reserves, deferred taxes and O&M expense.

18 Q. I would also like to show you what I will
19 mark as AG Cross Exhibit Number 3.

20 (Whereupon AG Cross Exhibit 3
21 was marked for purposes of
22 identification as of this date.)

1 And this is the Company's response to AG
2 Data Request 8.12. Now, do you recognize this
3 document as the Company's response to AG Data Request
4 8.12

5 A. Yes, I do.

6 Q. And does the attachment to this response
7 set forth all the Company's proposed modifications to
8 Rider VBA or are there other modifications that have
9 been made since this document was prepared, and that
10 was on April 24?

11 A. I am not sure it contains all the
12 modifications. Mr. Cooper would know if there have
13 been additional ones.

14 Q. Back on Sheet 41.004 of this response I see
15 reference to the annual earned rate of return that
16 would be filed with the Commission. Is this intended
17 to be comparable to the annual earned return report
18 proposed for Rider QIP?

19 A. Yes, it is.

20 Q. Now, is it your testimony that Commission
21 Staff and other parties will have available the
22 resources that they can carefully review the annual

1 rate of return filings for each of the six Ameren
2 Illinois utility operations?

3 A. I believe that if the Commission approves
4 this rider, it will take that into consideration. We
5 will have the resources available.

6 Q. And so these would be filed for all six
7 Ameren utilities and both on the gas and electric
8 side, is that correct, so that would be a total of 12
9 reports?

10 A. That's not correct.

11 Q. Well, rate of return filings for the VBA,
12 will there be rate of return filings also on the
13 electric side?

14 A. Yes.

15 Q. So how many?

16 A. I am sorry, I thought you were asking the
17 question in the context of VBA, and I thought that's
18 where we were. And there would be three of those,
19 three companies, three reports.

20 Q. Okay. And three companies on the electric
21 side for purposes of the QIP rate of return filings,
22 is that right?

1 A. Correct.

2 Q. Now, with respect to these rate of return
3 filings, would this be a docketed proceeding in your
4 opinion?

5 A. The rate of return filings in and of
6 themselves are not a docketed proceeding. As I
7 explained in an earlier question, the QIP filings
8 would become a docketed proceeding, and the
9 Commission would be looking and other parties could
10 be looking at the rate of return report there.

11 Q. But as I understand your testimony, the
12 rate of return filing, let's take VBA to start with,
13 that would occur at the end of a 12-month period, is
14 that right, for purposes of reconciling the VBA
15 surcharge revenues with actual customer usage?

16 A. Mr. Cooper can answer that better. I
17 thought there was a monthly adjustment and then an
18 annual true-up. But I think he can better answer
19 that question.

20 Q. Okay. What I think -- you are here
21 testifying, however, about the rate of return
22 filings. And I want to be clear on what this company

1 intends to file, for purposes of protecting
2 ratepayers. So you have got your annual
3 reconciliation filing associated with Rider VBA,
4 right?

5 A. Yes, I see in the Reports Reconciliation
6 Section on page 106 the Company shall file with the
7 Commission annually, no later than February 20, a
8 statement of the reconciliation adjustment components
9 and then an annual rate of return report and so on.

10 Q. So that's with Rider VBA for each of the
11 three gas companies?

12 A. Correct.

13 Q. So the reconciliation -- because just to
14 backtrack a second, now, for purposes of the Rider
15 VBA formula that's applied, there is a certain amount
16 of forecasting that goes into that each month, isn't
17 that right, for purposes of setting the surcharge?

18 A. I think Mr. Cooper should answer that
19 question. As I understand decoupling, it decouples
20 us from usage. So it is a look-back at the usage
21 that was approved in the rate case as compared to
22 actual usage. So I don't know where the forecasting

1 comes in. Mr. Cooper might be able to answer that
2 better than I.

3 Q. Just to clarify again, the rate of return
4 filing would be a part of the reconciliation, annual
5 reconciliation, proceeding for each gas company, is
6 that right?

7 A. I believe that's up to the Commission. We
8 have stated in this draft rider that we would file a
9 reconciliation adjustment and these reports.

10 Q. So the rate of return filing then wouldn't
11 necessarily be a docketed proceeding?

12 A. It would depend on what the Commission
13 wanted.

14 Q. I am going to show you a document. I won't
15 mark it as an exhibit because it is already in the
16 record as an attachment to Mr. Brosch's testimony.
17 It is his Attachment 5.1. But I will give you a copy
18 to refresh your recollection for purposes of my
19 question.

20 A. Can I go back to your previous question for
21 a moment? As I read farther in that paragraph, I see
22 there is an annual reconciliation proceeding. So I

1 guess we do contemplate an annual proceeding.

2 Q. And in that proceeding there would be an
3 evaluation of the rate of return?

4 A. If the Commission so chooses to evaluate,
5 it would be.

6 Q. Now, looking at this Exhibit 5.1 which is
7 attached to Mr. Brosch's testimony which is the
8 Company's response to AG Data Request 8.04, in this
9 attachment the Company provides copies of what it
10 intends to file as its rate of return report. And I
11 have a few questions about the filing attached to
12 this response.

13 So it is correct then that Ameren will
14 be filing two pages of calculations for each of the
15 three operating companies, is that right?

16 A. I believe the rate of return report is two
17 pages, yes.

18 Q. Now, are the components of rate base at
19 lines 1 through 9 to be quantified on an average
20 basis for the year or will Ameren calculate its
21 earned returns on year-end rate base values?

22 A. I am not sure which of those.

1 Q. Would you agree that whether the Company
2 chooses a year-end rate base value or an average rate
3 base value for purposes of these reports affects the
4 return that's reported?

5 A. I agree. What we are talking about filing
6 in the attachments that we filed are actual rate of
7 return reports that we provide the Commission. So I
8 expect that it would be provided the same way,
9 whichever way that is, and I am not sure.

10 Q. Would Mr. Cooper know more about that?

11 A. I hope he does.

12 Q. Would the amounts shown on the line
13 captioned Total Operating Revenues be filed on an
14 adjusted basis to normalize for weather conditions
15 that may depart from normal in any particular year?

16 A. Again Mr. Cooper could give you a better
17 answer.

18 Q. Would revenue expenses at lines 1 through 9
19 of the revenue statement be analyzed at year-end or
20 left at prove-up levels throughout the year for
21 comparison to the rate base amounts at the top of
22 2008 returns?

1 A. What I think is in these reports, subject
2 to check, are actual year expenditures. But again
3 Mr. Cooper could give you a better answer.

4 Q. Which of the expense adjustments that the
5 Commission may order in these pending rate cases
6 would be calculated and applied to future reported
7 expense amounts, do you know?

8 A. I have no idea.

9 Q. I assume the answer would be the same for
10 any rate base adjustments that the Commission may
11 order in this docket, that you don't know which would
12 be calculated and applied to future reported rate
13 base amounts?

14 A. That's correct, I am not sure.

15 Q. Is it also correct that the Company does
16 not intend to file detailed Part 285 filing
17 requirements each year to facilitate Staff's review
18 of Ameren's reported rate of return for each utility?

19 A. That is correct, assuming we are not in a
20 rate case.

21 Q. Will Ameren conduct an audit to determine
22 or identify and adjust for any unusual non-recurring

1 reported costs or revenues within the accounts in
2 preparing its annual rate of return report?

3 A. Not to my knowledge. Again, I think this
4 is actual expenditures for the year. Mr. Cooper can
5 verify that.

6 Q. So I will verify with Mr. Cooper, but if I
7 understand your testimony, you are saying what's
8 filed in terms of rate of return annual reports will
9 look like these two sheets. And so there will not be
10 any specific line for what might be unusual or
11 non-recurring expense or revenue items?

12 A. What I have offered in this data request
13 response was here is the rate of return with what we
14 are actually filing and we would be, of course,
15 willing to file that with the VBA reconciliation
16 amounts, and the Commission can consider this
17 document, along with other documents, as it makes its
18 decisions.

19 Q. Now, what happens once the annual rate of
20 return report is filed by the utilities? Will the
21 Company reduce its overall rates or only reduce its
22 VBA charges to a level that yields authorized return

1 levels?

2 A. Is the assumption that we are over earning
3 our allowed rate of return?

4 Q. Yes.

5 A. In that scenario two things might happen.
6 One thing that might happen is, as the Company did
7 with CILCO gas, it would file to reduce its rates.
8 Or as I understand it, the Commission, if it sees
9 that we are over earning, can call us in and ask us
10 to reduce our rates.

11 Q. So is it your testimony then that if Rider
12 VBA is in effect and if the rate of return reports
13 show the Company is over earning, based on the
14 response that you just gave, the Company would be
15 filing a rate case?

16 A. I said that the Commission will take the
17 rate of return report into consideration as it
18 decides whether to call us in, and we would also take
19 this type of information into consideration as we did
20 if we decide whether to file reduced rates.

21 Q. So you don't know sitting here today
22 whether or not any kind of roll back would occur

1 associated with the determination that over earnings
2 had occurred and VBA charges had contributed to that?

3 A. I don't think we are contemplating any type
4 of roll back.

5 Q. So there would be no refund necessarily
6 unless there was a particular Commission order that
7 the Company come back in?

8 A. That's how I understand regulation in this
9 state. Rates are approved until they are changed.

10 Q. Just a couple clarification questions about
11 construction expenditures that the Company
12 anticipates to spend in the coming years. In
13 response to an AG data request you indicated that --
14 actually, it was in your rebuttal testimony, lines
15 227 to 231, you indicated that the Company expects to
16 invest about five hundred million in their delivery
17 systems in a three-year period. Now, just to
18 clarify, is that five hundred million in both gas and
19 electric delivery systems or just electric?

20 A. In that part of my testimony I was speaking
21 solely about electric distribution, not transmission,
22 not gas.

1 Q. Okay. Finally --

2 MR. FLYNN: Judge, while Ms. Lusson is looking
3 at her notes, the witness has been going at it for
4 two hours now.

5 JUDGE ALBERS: I was going to offer a break
6 here when we are through with Ms. Lusson's cross.

7 MS. LUSSON: Thank you, Mr. Nelson, I have no
8 further cross. And I would move for admission of AG
9 Cross Exhibits 2 and 3.

10 MR. FLYNN: No objection.

11 JUDGE ALBERS: All right. We will do them
12 altogether with the witness's testimony.

13 MS. LUSSON: I am sorry, I didn't hear.

14 JUDGE ALBERS: We will group the admission of
15 all the exhibits together at the end of his
16 testimony, cross examination, whatever, if you will.

17 MS. LUSSON: Okay, thank you.

18 JUDGE ALBERS: Mr. Nelson, do you need a brief
19 break?

20 WITNESS NELSON: It would be welcome.

21 JUDGE ALBERS: Okay. Why don't we take five
22 minutes? Before you do that, though, do you think we

1 will be able to wrap up before lunch, yeah, AARP,
2 IIEC and Kroger cross? Do you all still have cross
3 for Mr. Nelson?

4 MR. ROBERTSON: I do, but I think I saved a
5 half hour. I don't remember.

6 JUDGE ALBERS: All right. We will take a
7 break.

8 (Whereupon the hearing was in a
9 short recess.)

10 JUDGE ALBERS: Back on the record. We just
11 concluded Ms. Lusson's cross examination.

12 Mr. Robertson, you wanted to go next?

13 MR. E. ROBERTSON: Yes, sir.

14 CROSS EXAMINATION

15 BY MR. E. ROBERTSON:

16 Q. Good morning, Mr. Nelson.

17 A. Good morning.

18 Q. My name is Eric Robertson. I represent the
19 Illinois Industrial Energy Consumers. And I would
20 like to refer you to lines 83 to 85 of your
21 surrebuttal testimony, Ameren Exhibit 42.0.

22 A. I am there.

1 Q. All right. At that location you suggested
2 Rider QIP does remove regulatory lag and a
3 disincentive to increase investment in the Ameren
4 system and in new technologies, is that correct?

5 A. That is correct.

6 Q. By that do you mean to suggest that the
7 revenue Ameren collects from customers as a whole
8 would be the same under currently proposed Rider QIP
9 as they would be if Ameren had a rate case in June?

10 A. In general, yes. In either case the
11 allowed investment would go into rate base. It just
12 may affect the timing of when the revenue is approved
13 for specific investments.

14 Q. Would the revenues collected from each
15 customer class be the same?

16 A. I am not sure. I know that in our filing,
17 our request for Rider QIP, we did clarify that the
18 Commission could allocate recovery to different
19 customer classes based on the benefit. I would
20 assume that would happen the same way in a rate case
21 then.

22 Q. Now, when you use the term "regulatory

1 lag," you are referring to the period between rate
2 cases at this location in your testimony?

3 A. Yes, it's the time between when we spend
4 the money and we get recovery through rates.

5 Q. Has regulatory lag to the best of your
6 knowledge existed since regulation of the utility
7 rates was initiated in 1913 in Illinois?

8 A. As far as I know, yes.

9 Q. And has that been a disincentive to
10 increase investment for utilities generally or for
11 Ameren in particular since that time?

12 A. It wasn't as much of a disincentive in
13 previous years as it is now.

14 Q. Now, is it true -- do you believe that
15 regulatory lag can encourage efficient utility
16 management?

17 A. It is one thing that contributes to that,
18 yes.

19 Q. Would you agree with the suggestion that
20 regulatory lag can be a practical means of reducing
21 the tendency of a fixed profit standard to discourage
22 efficient investment?

1 A. Could you ask me that question again,
2 please?

3 MR. E. ROBERTSON: Yes. Could you read that
4 back for him, please?

5 (Whereupon the requested portion
6 of the record was read back by
7 the Reporter.)

8 A. I am not sure I understood it in either
9 reading.

10 Q. Well, you have been working in the electric
11 utility industry a long time, is that correct?

12 A. Yes, sir.

13 Q. And do you consider yourself to be somewhat
14 of an expert in that area?

15 A. In some things I consider myself to be an
16 expert.

17 Q. Are you familiar with the Principles of
18 Public Utilities Rates published by James C.
19 Bombright?

20 A. No, I am not.

21 Q. You are not. You never heard of
22 Mr. Bombright and the Principles of Public Utility

1 Regulation?

2 A. I don't believe I have.

3 Q. Now, with regard to Rider QIP, Mr. Nelson,
4 when was it first considered as an idea by Ameren?

5 A. Well, I don't know the all Ameren question.
6 The first time that I heard about it was early in our
7 preparation for this rate case, talking with my
8 co-workers about what happened at water companies,
9 that did they have such a rider, and those kind of
10 discussions. So I didn't know about it until the
11 preparation stages for this rate case.

12 Q. And were you aware or did you become aware
13 at that time that ComEd had filed a rider they called
14 Rider SMP?

15 A. Yes.

16 Q. And did the presence of that ComEd filing
17 influence Ameren's decision to include such a request
18 in this filing?

19 A. It was helpful in obviously our decision to
20 request this, yes.

21 Q. Now, over what time did you consider the
22 rate cases that we are considering here today?

1 A. I am not for certain, but obviously it took
2 us months to prepare. I am guessing anywhere from
3 four to five months, somewhere in that time frame.
4 Keep in mind that I was reassigned to these
5 responsibilities around September 1. Preparations
6 had begun before that assignment.

7 Q. Is there any witness here today that might
8 be able to tell us when that process began for the
9 preparation of the rate case?

10 A. I think Mr. Stafford or Mr. Cooper might be
11 able to answer that question.

12 Q. Now, do you know whether Rider SMP for
13 ComEd is similar to Rider QIP for Ameren?

14 A. It is a similar concept.

15 Q. Would it be true to say that last June of
16 2007 Ameren had not really thought about a rider such
17 as Rider QIP?

18 A. I don't know.

19 Q. Well, had Ameren considered that the issue
20 of regulatory lag would require such a rider prior to
21 the decision a month or so ago or, I am sorry, a
22 month or so before you filed your testimony to

1 include it?

2 A. I know that regulatory lag has been an
3 issue for the companies for many years. I don't know
4 the timing of when we began studying Rider QIP. I do
5 note that on August 27 and September 1 when I came on
6 board with the regulatory group, we got serious about
7 including Rider QIP in this filing as one solution of
8 trying to prevent regulatory lag.

9 Q. So regulatory lag was an issue even when
10 the Ameren utilities in Illinois owned generation, is
11 that correct?

12 A. Well, it hasn't been a direct issue during
13 the nine or ten-year period of the rate freeze. It's
14 been an issue in the delivery service area since the
15 rate freeze, though.

16 Q. And it was an issue before the rate freeze,
17 would you agree with that, too?

18 A. From time to time, yes.

19 Q. In fact, in my experience utilities have
20 periodically come in and asked for adjustment of the
21 fuel adjustment clause to include casting costs or
22 casting purchases, have they not?

1 A. They have.

2 Q. And that was what, 15, 20 years ago?

3 A. I believe some of the distinction now is

4 the precarious position we are in.

5 Q. Excuse me, Mr. Nelson, I don't mean to

6 interrupt. I didn't ask you for the distinction. I

7 just asked you whether or not you agreed it was 15 or

8 20 years ago.

9 A. It could be, yes.

10 Q. Now, referring to your surrebuttal

11 testimony -- I am sorry, not your surrebuttal

12 testimony, your rebuttal testimony, Ameren Exhibit

13 18.0 Revised, page 6, lines 86 to 88, tell me when

14 you are there, please.

15 A. I am there.

16 Q. All right. You note there that Ameren has

17 changed the definition of Rider QIP projects to

18 include only those projects associated with system

19 modernization or service reliability, is that

20 correct?

21 A. That's correct.

22 Q. Is it your intent that this new definition

1 exclude projects, quote, associated with
2 infrastructure replacement?

3 A. I have not said that it precludes those if
4 those projects for infrastructure replacement enhance
5 service reliability.

6 Q. Is the current definition broad enough to
7 include projects that are revenue producing projects
8 from the point of view of Ameren?

9 A. Well, especially in the earlier round of
10 testimony, I did say that some system modernization
11 things could produce additional revenue, and I did
12 not study it, but conceivably additional revenue
13 could be produced by some of these investments, if
14 that's what you are asking.

15 Q. That's fine. Just to make sure I
16 understand, the definition is broad enough to include
17 revenue producing projects then?

18 A. If there are such, yes.

19 Q. Now, are you generally familiar with the
20 distribution system for the Ameren Illinois
21 utilities?

22 A. In general, yes.

1 Q. And how much of it is a hundred or more
2 years old?

3 A. I don't know the answer to that question.
4 Since some of the companies aren't -- I guess they
5 are all about a hundred now, years, but I don't know
6 the answer of how old each piece of equipment is.

7 Q. Is it likely there are any wooden poles out
8 there that are a hundred years old?

9 A. Very unlikely.

10 Q. And does any of the system consist of cast
11 iron main that is a hundred years old?

12 A. I hope not.

13 Q. Now, you suggest that, at page 6, lines 96
14 to 97 of your rebuttal testimony, that Ameren would
15 pay a combined fee of a hundred thousand dollars for
16 annual filings associated with Rider QIP, is that
17 correct?

18 A. That's correct.

19 Q. And how did Ameren determine a combined fee
20 of a hundred thousand dollars for their annual filing
21 is sufficient to mitigate the impact on the
22 Commission's resources?

1 A. In conjunction with testimony that I read
2 that claimed it would take additional resources, we
3 just came up with an estimate of a fee that would
4 partially pay for those additional services.

5 Q. So there was no formal study to determine
6 what the total cost of litigating any of those
7 filings might be, is that correct?

8 A. No formal study, just an estimate.

9 Q. Now, had Ameren ever given consideration to
10 paying the participation fees of other parties?

11 A. No.

12 Q. Now, are you familiar with the term
13 "regulatory bargain"?

14 A. I am familiar with the term "regulatory
15 compact." Are you using it interchangeable?

16 Q. I don't know. We will find out. What do
17 you define as regulatory compact?

18 A. Well, it encompasses regulatory law and
19 practice and orders and a history of how commissions
20 have acted in compact with utilities over a long
21 period of time.

22 Q. Would the compact include the idea that a

1 utility is given an exclusive franchise to provide
2 service within a defined geographic area?

3 A. I think it does, yes.

4 Q. And would you agree that the Ameren
5 Illinois utilities are given the exclusive franchise
6 to provide electric delivery service within their
7 defined service territory?

8 A. Yes, I would agree.

9 Q. Would you agree that as part of regulatory
10 bargain -- I am sorry, the regulatory compact, state
11 public utility commissions such as the Illinois
12 Commission are given the authority to approve rates
13 at which the utility service is provided?

14 A. Yes.

15 Q. And I think we already agreed that as part
16 of that process there is this concept we call
17 regulatory lag, is that correct?

18 A. Yes.

19 Q. And would you -- are you familiar with the
20 fact that Illinois utilities are permitted to seek
21 what is called interim rate relief under the Public
22 Utilities Act?

1 A. In general I am, yes.

2 Q. And are you familiar with any of the
3 components or standards for granting of that relief?

4 A. No, I don't think so.

5 Q. And you indicated that it would take up to
6 eight months for the process described by Ameren to
7 be completed under Rider QIP, the filing and the
8 litigation of it and all that stuff, is that correct?

9 A. No, nine months.

10 Q. Nine months, okay. And are you familiar
11 with the fact that the Company -- that the Company
12 can get rate relief under the Public Utilities Act,
13 interim rate relief, in five months or less?

14 A. I will accept that subject to check. I
15 have no reason to doubt that. I just don't know for
16 sure.

17 Q. And if Ameren was having difficulty
18 achieving its earnings, it could file a rate case and
19 seek interim rate relief, could it not?

20 A. As far as I understand it, yes.

21 Q. Now, my colleagues talked to you about the
22 future test year, I think, and let me go straight to

1 the bottom line on this one and ask you at page 7,
2 lines 112 to 113 of your surrebuttal, I am sorry,
3 your rebuttal testimony, you suggest that future test
4 years are difficult to prepare and costly and
5 burdensome, is that correct?

6 A. Yes, it is.

7 Q. Would you agree or disagree that the
8 adverse impacts associated with regulatory lag have
9 been of sufficient magnitude economically to justify
10 the use of a future test year for the Ameren
11 companies?

12 A. I am suggesting and what the Company is
13 suggesting is that the riders, including the QIP
14 Rider, is a better solution than future test year.
15 It doesn't estimate the budget line item by line item
16 what the costs will be. The rider recovers exactly
17 what the costs are.

18 Q. And the use of a future test year would
19 require the filing of a formal rate case which would
20 cause the Commission to review all the other items of
21 expense and so forth, revenues for the company as
22 well, isn't that correct?

1 A. Yes, it would.

2 Q. And if -- strike that.

3 Would you agree that if the adverse
4 impacts associated with regulatory lag were of
5 sufficient magnitude, Ameren utilities would have an
6 incentive to use a future test year?

7 A. No, Ameren -- the Ameren Illinois utilities
8 have an incentive to file rate cases. The choice of
9 what type of test year then is another matter. We
10 think what's best for our companies is this historic
11 test year and these riders, and that's what's best
12 for customers as well.

13 Q. I think you agreed with the Staff that in
14 certain circumstances in the future -- or one of the
15 attorneys here earlier today -- that in certain
16 circumstances a future test year would help to
17 mitigate regulatory lag?

18 A. Yes, I did. The question was not asked in
19 the context of other choices, though. And what I am
20 explaining to you now is that there are other better
21 choices for the Company and the customers.

22 Q. Well, absent the ability to have Rider QIP,

1 would the impacts associated with regulatory lag be
2 of sufficient magnitude to cause Ameren to file a
3 rate case every year and use a future test year?

4 A. I can't agree that that would be the case.
5 The regulatory lag may cause us to file a rate case
6 every year. It wouldn't necessarily be a future test
7 year rate base.

8 Q. Now, does AmerenUE operate in Missouri?

9 A. Yes, it does.

10 Q. And does Missouri permit the recovery of
11 costs associated with system modernization or service
12 reliability for electric utilities through a rider
13 such as Rider QIP?

14 A. I'm not completely certain. Again, I would
15 ask you to ask Mr. Cooper that question. He does
16 work jointly for -- he is working for us on a special
17 project now, but he works almost entirely for
18 AmerenUE. So he could better answer that question.

19 Q. Have you ever had any experience in
20 regulatory matters before the Missouri commission?

21 A. Yes, I have, in terms of resource planning
22 and my role as VP of corporate planning, but not in

1 terms of rate cases.

2 Q. Is it safe to say that you have no direct
3 knowledge of such a rider in Missouri?

4 A. I am not certain whether such a rider
5 exists in Missouri.

6 Q. Okay, fair enough. Would you agree that
7 until very recently there were no riders in Illinois
8 which permitted utilities to include the cost of
9 system modernization or service reliability in a
10 rider for recovery between rate cases?

11 A. I am not certain when the water company
12 riders went into effect, so I don't know the answer
13 to your question.

14 Q. If I were to say exclusive of those
15 permitted by statute, would you agree?

16 A. I don't know of any other QIP type riders
17 in effect in Illinois.

18 Q. And would you agree that this is a
19 relatively unique regulatory concept?

20 A. Not necessarily. Riders are not unique at
21 all. We have many examples of riders. The
22 Commission has been using riders for many years.

1 Q. I am not talking about the concept of a
2 rider, but the concept that utilities would be able
3 to recover the cost of system modernization or
4 service reliability between rate cases.

5 A. That is unique I think, yes.

6 Q. Now, also in your rebuttal testimony you
7 talk about at page -- the bottom of page 10 and the
8 top of page 11, you talk about the legislature
9 authorizing the use of an automatic adjustment cost
10 tariff for energy efficiency and demand response, is
11 that correct?

12 A. That is correct.

13 Q. And it is my understanding, and I want to
14 check and see if it was yours, that that specific
15 authority was granted the Commission by the
16 legislature at the request of the utilities, is that
17 correct?

18 A. Granted to the --

19 Q. Commission.

20 A. Commission at the request of the utilities.

21 Q. In other words, that was part of the deal
22 for the --

1 A. It's part of the rate relief legislation,
2 yes.

3 Q. And now, the rate relief bill contained
4 provisions for substantial credits against the bills
5 of certain customers who had seen their rates
6 increase at the end of the mandatory transition
7 period, is that correct?

8 A. That's correct.

9 Q. And there are no such refunds or credits
10 offered as part of this case, is that correct?

11 A. That's correct.

12 Q. Now, Ameren in this case has not requested
13 a Rider QIP for the gas operations in Illinois, is
14 that correct?

15 A. That's correct.

16 Q. And, therefore, I take it at this time the
17 gas operations are able to absorb the lag associated
18 with significant gas delivery service investment
19 without affecting their earnings adversely?

20 A. I wouldn't say that. I just would answer
21 that it was more of a need on the electric side than
22 on the gas side.

1 Q. And they have been able to do that to the
2 best of your knowledge since Ameren acquired the
3 Illinois utilities, is that correct?

4 A. They -- I don't precisely understand your
5 question. They?

6 Q. Well, let me restate it then, rather than
7 have you answer the question you thought I asked.

8 Now, the Ameren gas utilities have not
9 produced their own gas, is that correct?

10 A. That's correct.

11 Q. And the Ameren utilities must purchase
12 their gas supply in the wholesale market, correct?

13 A. Correct.

14 Q. And it is also correct that the Ameren
15 electric utilities must also purchase their
16 electricity in the wholesale market?

17 A. That's correct.

18 Q. So in that respect the Ameren gas utilities
19 in Illinois and the Ameren electric utilities in
20 Illinois are somewhat alike?

21 A. Yes, I agree.

22 Q. Now, are you familiar with the Power On

1 project in Missouri?

2 A. Somewhat familiar.

3 Q. Do you know whether or not Rider QIP would
4 allow the Company to recover the cost of underground
5 distribution lines here in Illinois?

6 A. If the Commission so approved that as a
7 reliability improvement or a system modernization
8 improvement, but only if the Commission approved it
9 as such.

10 Q. Now, is it true that AmerenUE is going to
11 spend \$300 million to improve the reliability of its
12 system by undergrounding portions of its distribution
13 system?

14 A. I am not sure of the number. I know that
15 Power On includes some undergrounding, and I don't
16 know the dollar amount.

17 MR. E. ROBERTSON: I would like to approach the
18 witness and show him a publication that I took off of
19 the Ameren website.

20 Q. I will represent to you this is a document
21 taken off the Ameren website that deals -- and the
22 portion of the website that deals with Power On.

1 Would you be willing to except subject to check that
2 the three-year effort involves approximately \$100
3 million per year for substantial undergrounding of
4 cabling?

5 A. I see where it says that, yes.

6 MR. E. ROBERTSON: We will end on a high note,
7 Mr. Nelson. Thank you.

8 WITNESS NELSON: It's been a pleasure.

9 JUDGE ALBERS: Mr. Coffman, how much time do
10 you think you'll --

11 MR. COFFMAN: 15 is what I reserved. I don't
12 know if it will go that long or not.

13 JUDGE ALBERS: Okay, go ahead and have at it.

14 CROSS EXAMINATION

15 BY MR. COFFMAN:

16 Q. Good afternoon, Mr. Nelson. How are you?

17 A. Good afternoon.

18 Q. In your testimony you agree that you will
19 limit your proposed QIP Rider to reliability and
20 system modernization. And I want to ask you about
21 potential system modernization projects, and I want
22 to know whether it is possible that Ameren might be

1 proposing projects that go beyond essential basic
2 electric delivery service. Is that possible?

3 A. It is possible. We have no intent to do
4 that, but there might be ancillary services provided.
5 If we move towards Smart-Grid, and we do intend to
6 move that direction, slowly and surely as approved by
7 the Commission, and if there are some ancillary
8 services provided as part of that Smart-Grid
9 initiative, so be it. But we have no intention to
10 move that direction unless -- for the purpose of
11 providing those ancillary services.

12 Q. So it is your intent that Rider QIP would
13 not provide any compensation for non-essential
14 electric services?

15 A. No, I didn't say that.

16 Q. You said it was not your intent.

17 A. Our intent is not to develop the Smart-Grid
18 to provide those non-essential services unless they
19 happen to be just an offshoot of the real intent
20 behind what we would like to spend on the Smart-Grid.

21 Q. Now, I know you haven't done or completed
22 your cost benefit analysis on some of these

1 technologies, but from what you have heard or
2 understand about Smart-Grid technologies wouldn't you
3 agree that there is a great potential for services
4 that would be ancillary to basic service?

5 A. I don't know if there is great potential or
6 not. I know that there are some there. Services
7 provided beyond the meter, clearly if there are any
8 with the Smart-Grid, we are ready to hear that. I
9 don't know what investments, if any, we would make
10 beside the meter.

11 Q. What assurance can you provide to AARP to
12 answer its concern that it not be providing funds for
13 investments that would later be used for services
14 beyond basic electric delivery service?

15 A. The assurance I can give you is that the
16 Commission is going to review in great detail, I am
17 sure, and all the parties in this room the cost
18 benefit studies that we filed for Rider QIP. And the
19 assurance is the Commission will watch very carefully
20 what it approves and doesn't approve, and it will
21 very carefully protect consumer interests as it has
22 for decades.

1 Q. What's going to protect consumer interests
2 if the funding has already been provided for
3 technology that later evolves into service that's
4 optional or competitive, say, internet over power
5 lines?

6 A. Again, my answer is the Illinois Commerce
7 Commission will protect the interest of the
8 consumers. If they think that Ameren is over earning
9 for any reason, I am sure they will call us in. And
10 they will have the benefit of these rate of return
11 reports to get an indication of that.

12 Q. Well, that doesn't provide me any specific
13 assurances. You talked at length with Ms. Lusson
14 about your concession that certain expense reductions
15 might be offset during your annual filings from the
16 QIP Rider, do you recall that?

17 A. Yes, I do.

18 Q. Would Ameren also be willing to commit to
19 having any income from non-essential services also be
20 offset during those proceedings?

21 A. I don't know what you mean by offset.
22 Clearly, we will do our best to identify additional

1 revenue provided by Smart-Grid investment, the nature
2 of each type of additional revenue, and the nature of
3 associated costs. And the Commission will have all
4 of that information in front of it as it makes a
5 determination as to what the cost recovery will be,
6 if any, under Rider QIP.

7 Q. And if there is identifiable revenues for
8 non-essential services, do you believe that a basic
9 monopoly of electric delivery service customer should
10 have to pay for those technologies?

11 A. I can't answer that question yet. I just
12 don't know the extent of what type of business
13 revenue would be derived. It is just an unanswerable
14 question at this point in time since we don't know
15 what non-essential services we are talking about, the
16 revenue from those non-essential services, the costs,
17 how are they are connected, directly or indirectly,
18 with the essential services that were provided. I
19 just don't know at this point.

20 Q. Is it possible that some of the
21 technological services that are developed through
22 Smart-Grid could be developed into optional services

1 that only some customers would be able to take
2 advantage of at a separate fee?

3 A. I am sure that's possible, yes. I don't
4 know what situation you are talking about, though.

5 Q. In your direct testimony on page 10, I
6 believe you state that a rider mechanism is an
7 appropriate cost recovery mechanism for costs that
8 are highly volatile, uncontrollable and/or
9 unpredictable. Do you recall that?

10 A. Yes, I do.

11 Q. Would you agree with me that there are
12 certain energy costs that are volatile and
13 uncontrollable? Energy costs.

14 A. Yes, I would.

15 Q. Are infrastructure costs generally volatile
16 or unpredictable?

17 A. They can be. And I guess I would say,
18 based on the number of storms we have, I would say
19 they generally are.

20 Q. Are Smart-Grid costs volatile or
21 uncontrollable?

22 A. Yes, they can be. For example, if the

1 Commission orders us to invest in the Smart-Grid,
2 that would be something that's not in our control.

3 Q. You are including the Illinois Commerce
4 Commission as an uncontrollable factor in your
5 business world?

6 A. Yes, we do not control the Illinois
7 Commerce Commission. I know that with certainty.

8 Q. In response to data requests, Ameren has
9 not identified any specific restrictions on the
10 ability to file base rate cases to address
11 distribution plant addition, is that correct?

12 A. There was a cough and I missed a key word.
13 Filed what now?

14 Q. Base rate cases.

15 A. There is no restrictions in filing base
16 rate cases. I agree, there is no restrictions that I
17 know of, other than it would be quite difficult to
18 file them in the midst of an ongoing rate proceeding.
19 I don't know if the Commission would allow that.

20 Q. I guess the prohibition against pancaking
21 is a restriction?

22 A. Yes, I would see it as such.

1 Q. Let me ask you about a response that AARP
2 received to a data request. I don't know if you have
3 all the responses there. AARP Data Request 2.01. I
4 don't think you were the person who prepared that.
5 Let me know if you can find 2.01.

6 A. I have several AARP, but not 2.01, sorry.

7 MR. COFFMAN: May I approach the witness?

8 JUDGE ALBERS: Yes.

9 WITNESS NELSON: Thank you. It's because it is
10 provided by Michael Getz, not me.

11 BY MR. COFFMAN:

12 Q. Have you seen that data request response?
13 It asks generally about how the Ameren companies
14 evaluate capital funding needs.

15 A. Yes, I have reviewed this response in its
16 drafting stage.

17 Q. And does that response state that capital
18 funding needs are evaluated in relation to available
19 cash from projections of ongoing operations?

20 A. Yes, that's one consideration in evaluating
21 projects.

22 Q. That's the only question I have on that.

1 Let me just quickly move to the --
2 about the collaborative proceedings that you have
3 stated some willingness to consider as an alternative
4 to your original QIP Rider filing, and I want to ask
5 a couple questions about what type of proceeding you
6 anticipate that this would be. And I know -- first
7 of all, I would like to know what kind of regulatory
8 components is this? I heard you earlier say that
9 other parties would be allowed to intervene, that
10 there would a chance for cross examination and
11 production of evidence, you believe that it would
12 have the same due process components that a rate case
13 would have?

14 A. I am not an attorney, but I do understand
15 what we are offering is that we make a filing with
16 the Commission and request Rider QIP recovery, that
17 the Commission would open a docket, have a
18 proceeding, and it is my expectation that it would be
19 a litigated proceeding where all parties could join
20 the fray.

21 Q. And these would be annual proceedings,
22 right?

1 A. If we choose to request Rider QIP recovery
2 on an annual basis.

3 Q. So if AARP or other similar Intervenors
4 wanted to participate, it would -- would you
5 anticipate that this would be a more frequent
6 proceeding that the Intervenors would have to
7 participate in than your normal rate case frequency?

8 A. Because it is once a year, potentially once
9 a year versus more than once a year, so, yes, you may
10 have to participate, you may choose to participate
11 more frequently.

12 Q. And you are proposing that the actual rider
13 itself with the framework essentially as you proposed
14 Rider QIP be approved now, but the actual filler, the
15 actual investments, not be approved until these later
16 filings?

17 A. That is correct.

18 Q. So if AARP wanted to have input about what
19 it thought about your cost benefit programs or what
20 exact expenses need to be flowed through that or
21 should be allowed to, they would have to take the
22 additional -- go to the additional expense of hiring

1 experts and attorneys and participating in these
2 additional proceedings?

3 A. Or relying on Staff, either one.

4 Q. And I was going to ask you if you agreed
5 with me that would be a single issue ratemaking
6 proceeding. I understand you have made some
7 concessions and now would be willing to consider some
8 expense reductions to be offset. But I am assuming
9 that you are proposing something that would be less
10 than an all relevant factors proceeding, is that
11 correct?

12 A. I am not conceding that it is single issue
13 ratemaking, in that the Commission has approved many
14 riders for recovery of costs and they are not
15 considered single issue ratemaking.

16 Q. Would the Commission be allowed to consider
17 all relevant factors during these annual
18 reconciliation proceedings?

19 A. The Commission can choose to consider what
20 it will. We have offered to file certain things, and
21 then it is up to the Commission to decide, based on
22 its rules of practice, Illinois law, what to approve.

1 Q. So it would not be consistent with your
2 proposal that the Commission consider any expense
3 reductions or, say, revenue offsets that might be
4 necessary or they might believe are necessary before
5 approving a QIP rate?

6 A. I think you are going beyond what I am
7 saying. I am saying that we file a cost benefit
8 analysis for a QIP investment, and the Commission
9 will consider what it will in deciding whether to
10 approve cost recovery for those investments. I
11 didn't say that it would institute a new rate case,
12 and we are not offering a new rate case.

13 Q. And, obviously, the Commerce Commission can
14 do what it wants to within the bounds of the law, but
15 what I am asking is would Ameren object to an all
16 relevant factors proceeding.

17 A. We are objecting to a rate case. As I
18 have --

19 Q. May I stop you just a second? When you say
20 you are objecting to a rate case, do you know --

21 MR. FLYNN: No. Actually, I don't think that
22 the witness should be stopped. The witness was

1 answering the question. If counsel wants to ask
2 another question, counsel can wait.

3 MR. COFFMAN: I simply want to make sure I
4 understand the definition.

5 JUDGE ALBERS: Go ahead. If you want to
6 clarify, go ahead.

7 Q. I apologize.

8 A. No apology necessary. What I propose and
9 what we proposed in this filing is to file a cost
10 benefit analysis and file a rate of return, of
11 course. In addition to that I pointed to Mr. Cooper
12 as one who could explain what's included in those
13 rate of return reports. In retrospect I should have
14 said Mr. Stafford. He's the one that actually files
15 those reports. Mr. Cooper is the one that can best
16 answer the question about interpretation of Rider
17 QIP, and Mr. Cooper may be willing to have a
18 discussion about possible adjustments to Rider QIP,
19 to what we file there.

20 Q. But let me just try one more time to
21 clarify. It seems apparent to me that what you were
22 asking for is a proceeding that does consider fewer

1 factors than a traditional base rate case, would that
2 be correct?

3 A. That's correct because we are focused
4 solely on QIP adjustments.

5 MR. COFFMAN: I think I can leave it at that.
6 Thank you.

7 JUDGE ALBERS: Thank you, Mr. Coffman. Kroger?

8 MR. BOEHM: No questions, Your Honor.

9 MS. SODERNA: Actually, Julie Soderna. Cub had
10 actually reserved 20 minutes also, but actually I
11 don't know if it is reflected or not. Is it
12 reflected on the schedule?

13 JUDGE ALBERS: No.

14 MS. SODERNA: I indicated that to Ameren last
15 week. But I actually don't have much. I just have a
16 follow-up on what was discussed.

17 JUDGE ALBERS: It is interesting that these
18 schedules indicate that CUB has no questions for
19 anyone. So if you want to --

20 MS. SODERNA: Oh, I had reserved 20 minutes for
21 Mr. Nelson.

22 JUDGE ALBERS: No, you need to talk to someone

1 about that.

2 MS. SODERNA: I don't think it's going to be a
3 problem.

4 CROSS EXAMINATION

5 BY MS. SODERNA:

6 Q. Good morning. My name is Julie Soderna. I
7 represent the Citizens Utility Board, and I actually
8 just want to follow up on a couple of things that
9 came up in Mr. Coffman's cross.

10 You have stated in response to the
11 questions about Rider QIP, the costs incurred?

12 JUDGE ALBERS: Actually, was your appearance
13 entered earlier or did someone do that for you?

14 MS. SODERNA: I believe, yes, she did it on my
15 behalf.

16 Q. The costs incurred under Rider QIP with
17 regard to Smart-Grid could be volatile, is that what
18 you testified earlier?

19 A. It could be, yes.

20 Q. And I think you were discussing that with
21 regard to if the Commission were to, for example,
22 order the Company to make certain Smart-Grid

1 investments, is that the context of that answer?

2 A. That's the example I used, yes.

3 Q. Assuming that the Commission does not order
4 the Company to initiate Smart-Grid investments and
5 assuming Rider QIP is approved, isn't it true that
6 the investments made under Rider QIP would be subject
7 to the Company's own proposals?

8 A. Not necessarily, because storms occur in
9 our service territory which knock down miles and
10 miles of line and clearly they are service
11 reliability issues that's outside of our control.
12 And that's another example of something that we think
13 we should be allowed Rider QIP to recover.

14 Q. Okay. Let's refer specifically just to
15 Smart-Grid investments, the type of Smart-Grid
16 investments that are contemplated in your testimony,
17 although the Company acknowledges it doesn't have a
18 specific proposal with regard to Smart-Grid, is that
19 right?

20 A. Correct, we do not have, but for one that
21 we identified. We actually have begun work on
22 distribution automation which many would consider to

1 be part of Smart-Grid. So we have -- we are spending
2 money on that currently.

3 Q. In any future projects that you would plan
4 that would fall under the category of Smart-Grid, the
5 Company itself would develop the proposed investments
6 under any kind of Smart-Grid category, is that right?

7 A. Yes, we would develop the cost benefit
8 analysis. That would be filed through QIP.

9 Q. And then under Rider QIP the proposals
10 would go to the Commission and then the Commission
11 would either approve or deny recovery of those
12 investments in Rider QIP, is that right?

13 A. That's correct.

14 Q. So Rider QIP would then function to reduce
15 the Company's risk with regard to cost recovery on,
16 for example, Smart-Grid investments, is that right?

17 A. I don't know if I would necessarily agree
18 with that. You know, we are talking about
19 investments that are used and useful and investments
20 that are prudent. In either case, whether it is
21 recovery through QIP or through an ordinary rate
22 case, the Commission is going to hold us to the same

1 standard. So I think we have got the same amount of
2 risk in either case.

3 Q. The Company's preferred cost recovery for
4 investments like those that would constitute a
5 Smart-Grid would be through Rider QIP, correct?

6 A. No. Well, I don't know. We clearly want
7 to use QIP as an option for recovery of Smart-Grid
8 investments. Ultimately, though, all investments are
9 going to roll through a rate case. So just using a
10 hypothetical, if we were able to file a rate case
11 every year, I don't know if QIP would necessarily be
12 better. But this helps us so that we can get
13 recovery. It helps us -- Rider QIP helps us so we
14 can get recovery sooner rather than later. And it is
15 not a risk issue; it is a timing issue, a timing of
16 when we get recovery.

17 Q. Okay. But the Company's clear preference
18 is to recover that money sooner rather than later,
19 correct?

20 A. Correct, money that's being used to provide
21 reliable service to customers, yes, we would like to
22 recover it.

1 MS. SODERNA: Okay, that's all I have. Thank
2 you.

3 JUDGE ALBERS: Any others? Okay, I have one
4 question for you, Mr. Nelson.

5 EXAMINATION

6 BY JUDGE ALBERS:

7 Q. Do you know, or if any of the other Ameren
8 witnesses know, what portion of the gas -- on the gas
9 side what portion of fixed costs are currently
10 included in the monthly charge?

11 A. I have had that discussion with Mr. Cooper.
12 I don't remember the exact details. Plus, he
13 overwhelmed me with detail class by class. I think
14 it is something, anyway. So I think he is the better
15 one to ask that question.

16 JUDGE ALBERS: Okay, thank you. Any redirect?

17 MR. FLYNN: I have just a couple questions.

18 REDIRECT EXAMINATION

19 BY MR. FLYNN:

20 Q. Mr. Nelson, Mr. Robertson asked you some
21 questions about regulatory lag and how long utilities
22 have suffered from it. Do you recall those

1 questions?

2 A. Yes, I do.

3 Q. All right. Would you like to offer any
4 clarifying remarks about your answers and about
5 regulatory lag today?

6 A. Yeah. I was -- until he politely cut me
7 off, I was trying to talk about the distinction
8 between regulatory lag in the past versus regulatory
9 lag now. And one distinction is the precarious
10 position that the Ameren Illinois utilities are in.
11 And the precarious position I am talking about is
12 their credit ratings. With issue ratings in the junk
13 bond status and senior secured debt ratings at the
14 very bottom of the investment grade rating,
15 regulatory lag is -- that's one distinction.

16 Another distinction is the level by
17 which we are under earning. I mean, we are
18 dramatically under earning. So it is those two
19 distinctions, that we are in a precarious position as
20 far as credit ratings makes our regulatory lag
21 adjustment situation worse, and there is no room to
22 go down. And it is the level of under earning which

1 is extreme, as I pointed out tonight in my testimony.
2 So those two distinguish it from past periods of
3 regulatory lag.

4 Q. Thank you. One more question. Ms. Von --
5 one more topic. Ms. Von Qualen asked you some
6 questions about the movement of employees from Ameren
7 Services to the Ameren Illinois utilities and what
8 assessment, if any, you have made about the effects
9 such a movement would cause directly on efficiency
10 and costs. Do you recall those questions?

11 A. Yes, I do.

12 Q. Do you want to clarify your answers in any
13 respect?

14 A. Yes, there is one study that we have done
15 that I forgot to mention, and it is contained in
16 exhibit -- well, it is referenced in my study, the
17 565 employees. And then it is specifically in
18 Exhibit 42.1 where it has actually quantified the
19 cost of these 565 employees which is about \$60
20 million, 60,655,000. And, remember, these 565
21 employees are working exclusively for the Illinois
22 utilities. They are in Ameren Services just so we

1 can allocate their costs.

2 The study that I did in regard to that
3 was to quantify the impact that Staff's allocator had
4 on the companies. And the impact is an incorrect and
5 very harmful impact, in that under Mr. Lazare's
6 allocation formula, 65.1 percent of the costs of
7 these employees, 65.1 percent of the \$60 million,
8 would be not allowed to be recovered in Illinois.
9 Since he only allows 34 -- on his Exhibit 18.02 he
10 only allows 34.9 percent of this 60 million for
11 recovery.

12 The impact of that is severe in that
13 the Commission has approved the general services
14 agreement. And in that agreement --

15 MS. VON QUALEN: I would like to interpose an
16 objection here. I think Mr. Nelson is way beyond
17 anything that I raised in my cross examination.

18 MR. FLYNN: I think the witness is putting in
19 the perspective of movement of employees and the
20 effect on cost efficiency, the ability to provide
21 service, when the -- in light of the Staff
22 recommendation. I don't see what's inappropriate

1 about it.

2 JUDGE ALBERS: One moment.

3 (Pause.)

4 JUDGE ALBERS: Reviewing our collective
5 memories we don't recall that having been addressed
6 in the cross examination of Ms. Von Qualen. We will
7 sustain the objection.

8 MR. FLYNN: We are finished.

9 JUDGE ALBERS: Okay, recross?

10 MS. VON QUALEN: I just have one. I think
11 what's going to be one question.

12 RECROSS EXAMINATION

13 BY MS. VON QUALEN:

14 Q. When you said, I believe on redirect, that
15 "We did produce and conduct one study," who is we?

16 A. Myself and people working under my
17 direction, plus the people that are listed in that
18 supplemental response to PL 4.02, various function
19 heads.

20 Q. So would that be Ameren Services or would
21 that be one or more of the Ameren Illinois utilities?

22 A. It is both. It is people that work

1 directly for the Ameren Illinois utilities and people
2 working in Ameren Services exclusively for the Ameren
3 Illinois utilities, and some people that are working
4 in Ameren Services that are working for all four
5 utilities.

6 MS. VON QUALEN: Thank you.

7 JUDGE ALBERS: Mr. Robertson?

8 MR. E. ROBERTSON: Yes, sir.

9 RECROSS EXAMINATION

10 BY MR. E. ROBERTSON:

11 Q. Mr. Nelson, it is your position that
12 Ameren's current financial condition is due to
13 regulatory lag?

14 A. It is my position that Ameren's current
15 financial position is due in part to regulatory lag.

16 Q. Well, let me ask you this, if I may.
17 Ameren's bond ratings were downgraded sometime about
18 more than a year ago, is that correct?

19 A. It's about that time frame, yes.

20 Q. And it is my recollection, and hopefully it
21 is yours, that that was basically done in response to
22 the threat of legislation from the Illinois General

1 Assembly to require Ameren to refund moneys collected
2 after the end of the mandatory transition period,
3 isn't that correct?

4 A. It was due to that and a sale by both
5 rating agencies. It was also they had a concern
6 about adequate cost recovery for the Ameren
7 utilities. So it was both concerns.

8 Q. And the adequate cost recovery relates to
9 recovery of the cost of purchased power, did it not?

10 A. No, it was not entirely that. It relates
11 to adequate cost recovery for such things as this
12 rate case.

13 Q. But for the threat of the reduction in the
14 Company's rates by legislative mandate and but for
15 the concern of the financial community that Ameren
16 would not be allowed to recover the cost of the power
17 that it had to purchase for those customers it had to
18 continue to provide -- supply service for, would
19 there have been a de-rating due to regulatory lag?

20 A. I am not entirely sure, but I am very sure
21 that the Company's ability to recover the delivery
22 service costs is a reason that we are still in junk

1 bond status. And the rating agencies are waiting to
2 see what type of recovery we do get before they
3 decide whether the rating goes in a positive
4 direction.

5 Q. So if you get reasonable rate relief in
6 this case and the mandate associated with the
7 creation of the Illinois power agency to allow them
8 to purchase power for you and allow you to pass that
9 cost on, and given the fact that the General Assembly
10 has not seen fit to order you to reduce your rates,
11 is it likely that your financial condition will
12 change?

13 A. The rating agencies, I am trying to
14 remember which one, I believe it is S&P, has given us
15 a positive outlook for the three things that you have
16 mentioned. The legislature has not intervened, the
17 legislature and the Commission allowing recovery of
18 costs, we have got a wait and see attitude for this
19 rate case.

20 Q. And in your experience in the utility
21 industry prior to this time, have you ever heard of a
22 utility being down rated due to the existence of

1 regulatory lag in the regulatory contact?

2 A. Yes. Union Electric is a good example.
3 They started out with a rating of, I believe, double
4 A, as they started building their nuclear facilities.
5 And via regulatory lag they were down to one notch
6 above junk bond status by the time they were
7 finished. It is a regulatory lag issue.

8 Q. All right. And Union Electric was able to
9 build that plant without anything like Rider QIP, is
10 that correct?

11 A. I am not sure whether any QIP was allowed
12 in rate base. Mr. Cooper might be able to --

13 Q. QUIP, I mean.

14 A. I am sorry?

15 Q. Without anything like QUIP.

16 MR. FLYNN: QIP.

17 A. QIP.

18 Q. QIP, excuse me.

19 A. Mr. Cooper might be able to answer that
20 question better than I.

21 MR. E. ROBERTSON: I have nothing further.

22 JUDGE ALBERS: Thank you, everyone. Thank you,

1 Mr. Nelson.

2 (Witness excused.)

3 Was there anything else? I do not
4 believe there is anything else for you. With that
5 why don't we take an hour break for lunch?

6 Oh, any objection to any of the
7 exhibits? Hearing none, then CILCO Exhibit 2.0E,
8 2.0G, CIPS 2.0E, 2.0G, IP 2.0E and 2.0G, 18.0 Second
9 Revised and 42.0 Revised except for the rulings from
10 last Friday will be admitted, and 42.1 are all
11 admitted. And then we have marked Exhibit 42 with
12 lines 306 to 308 and 42.2, for the record simply as a
13 place holder, if you will, or an offer of proof for
14 Ameren's potential petition for interlocutory review,
15 and also AG Cross Exhibit 2 and AG Cross Exhibit 3
16 are admitted.

17 (Whereupon AmerenCILCO Exhibit
18 2.0E, 2.0G, AmerenCIPS 2.0E,
19 2.0G, AmerenIP 2.0E, 2.0G,
20 Ameren Exhibits 18.0 Second
21 Revised, 42.0 Revised, 42.1
22 Revised, 42.2, and AG Cross

1 Exhibit 2 and AG Cross Exhibit 3
2 were admitted into evidence.)
3 JUDGE ALBERS: And with that we will break for
4 lunch for an hour and return with Ms. McShane.
5 (Whereupon the hearing was in
6 recess for lunch from 12:45 to
7 1:45 p.m.)
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1 AFTERNOON SESSION

2 JUDGE YODER: Go back on the record then.

3 Ms. McShane, I don't believe you were sworn.

4 (Whereupon the witness was duly
5 sworn by Judge Yoder.)

6 JUDGE YODER: Mr. Flynn or Mr. Casey?

7 MR. FLYNN: I am ready.

8 KATHLEEN C. McSHANE

9 called as a witness on behalf of Petitioners, having
10 been first duly sworn, was examined and testified as
11 follows:

12 DIRECT EXAMINATION

13 BY MR. FLYNN:

14 Q. Would you please state your name for the
15 record.

16 A. Kathleen C. McShane.

17 Q. Ms. McShane, in this proceeding did you
18 prepare the following direct testimony, the following
19 pieces of direct testimony, AmerenCILCO Exhibits 7.0E
20 and 7.0G, AmerenCIPS Exhibit 7.0E and 7.0G, and
21 AmerenIP Exhibit 7.0E and 7.0G, each one including
22 testimony and schedules, including a revised Schedule

1 3.10.1 and 3.10.2?

2 A. Yes, I did.

3 Q. And are those -- is the testimony and
4 information provided in those exhibits true and
5 correct to the best of your knowledge?

6 A. Yes, it is.

7 Q. And did you also prepare and submit
8 rebuttal testimony marked as Ameren Exhibit 22.0 with
9 an exhibit, Ameren Exhibit 22.1, and surrebuttal
10 testimony Ameren Exhibit 46.0 which also was
11 accompanied by Ameren Exhibits 46.1, 46 -- actually,
12 we are going to call those schedules, including with
13 attached Schedules 46.1 through 46.3?

14 A. Yes, I did.

15 Q. And is that testimony and are those
16 exhibits true and correct to the best of your
17 knowledge?

18 A. Yes, they are.

19 MR. FLYNN: Judge, at this time we would move
20 for the admission into evidence of Ms. McShane's
21 direct, rebuttal and surrebuttal testimony. As I
22 noted, we have treated the attachments to her

1 surrebuttal testimony, 46.0, as schedules, rather
2 than separate exhibits, and they are to be considered
3 part of her surrebuttal testimony.

4 JUDGE YODER: Do you tender Ms. McShane then?

5 MR. FLYNN: Yes.

6 JUDGE YODER: All right. We will begin with
7 Mr. Olivero.

8 CROSS EXAMINATION

9 BY MR. OLIVERO:

10 Q. Good afternoon, Ms. McShane. My name is
11 Jim Olivero and I represent the Staff witnesses of
12 the Illinois Commerce Commission. There are a couple
13 areas of your testimony that I want to discuss with
14 you, the first involving your testimony regarding
15 beta.

16 A. Yes.

17 Q. And I am going to call your attention to
18 your direct testimony, Ameren Exhibit, and I had the
19 CILCO 7.0E on page 29.

20 A. I have that.

21 Q. Would you agree that systematic risk is the
22 same as non-diversifiable market risk?

1 A. Yes.

2 Q. And would you also agree that unsystematic
3 risk is the same as diversifiable firm specific risk?

4 A. Yes.

5 Q. And is it correct to say that security
6 price movements reflect both systematic risk and
7 unsystematic risk?

8 A. Yes.

9 Q. Does the proportion of stock price movement
10 due to systematic risk differ across securities?

11 A. Say that again, please.

12 Q. Does the proportion of stock price movement
13 due to systematic risk differ across securities?

14 A. Yes.

15 Q. I would like to call your attention to your
16 surrebuttal testimony, Ameren Exhibit 46.0, pages 8
17 through 10.

18 A. I have that.

19 Q. Is the model with which you estimated betas
20 using the weekly stock prices following the return on
21 the security or sample equals an intercept plus the
22 product of beta and the return on a market portfolio

1 plus a residual for error?

2 A. Yes.

3 Q. And is that known as the market model?

4 A. Yes.

5 Q. Would it be correct to say that the

6 independent variable in the market model is market

7 return?

8 A. Yes.

9 Q. And is it also correct to say that the

10 dependent variable in the market model is sample

11 company returns?

12 A. Yes.

13 Q. And could you describe for us the model

14 with which you estimated betas using the monthly

15 stock prices?

16 A. Same, only the intervals were monthly

17 rather than weekly.

18 Q. And so it is correct to say that the

19 independent variable in this market model is the same

20 as in the weekly one?

21 A. Yes.

22 Q. And likewise for the dependent variable?

1 A. Yes.

2 Q. And that's -- I assume that's also known as
3 the market model?

4 A. Yes.

5 Q. Is it true the only difference between the
6 two is the samples of stock prices from which they
7 are estimated?

8 A. Yeah, the monthly model uses monthly price
9 changes and the weekly model uses weekly price
10 changes.

11 Q. If you would refer to page 9 of your
12 surrebuttal testimony, Ameren Exhibit 46.0, line 187,
13 you are referring to an item called R Squared?

14 A. Yes.

15 Q. Do you agree that R Squared measures the
16 proportion of movement independent variables can
17 explain?

18 A. Yes.

19 Q. Do you agree that with respect to the
20 market model, R Squared is the ratio of systematic
21 variance divided by total variance?

22 A. I think that's right, yes.

1 Q. Do you also agree that R Squared that you
2 presented in your surrebuttal testimony is known as
3 the co-efficient of determination?

4 A. Yes, that's correct.

5 Q. And do you agree that the co-efficient of
6 determination equals the correlation co-efficient
7 squared?

8 A. Yes.

9 Q. Would you agree that beta equals the
10 correlation co-efficient between a given stock's
11 return and the market return times the standard
12 deviation of the stock's return divided by the
13 standard deviation of the market returns?

14 A. Yes.

15 Q. If an R Squared for an estimate of the
16 market model equals .5, does that mean that the
17 market portfolio explains 50 percent of the variation
18 of the securities stock price movements?

19 A. Sorry. Could you say that again?

20 Q. Sure. If an R Squared for an estimate of
21 the market model equals 0.5, does that mean that the
22 market portfolio explains 50 percent of the variation

1 in the securities stock price movements?

2 A. Yes.

3 Q. And if the R Squared portion of the market
4 model equals 0.5, does that mean that the model
5 estimated at 50 percent of the securities' return is
6 systematic risk?

7 A. That would follow, yes.

8 Q. When researchers tested a model using
9 regression analysis, are they trying to determine
10 whether there is a statistically significant
11 relationship between the independent variable -- or
12 the variables on the one hand and the dependent
13 variable on the other?

14 A. Yes.

15 Q. Are researchers testing a model, examining
16 whether that model explains the observed variation in
17 the dependent variable?

18 A. Yes, for the purpose of trying to use that
19 to estimate the future value.

20 Q. Is it correct that when testing a model
21 different researchers may use different samples of
22 observations for both the dependent and independent

1 variables?

2 A. Absolutely.

3 Q. And do you agree that estimating beta from
4 samples of realized return will result in measurement
5 error in the beta?

6 A. Yes, that's one of the standard errors it
7 tests to measure.

8 Q. Thank you. Would this use of samples of
9 realized returns also result in measurement error in
10 the estimate of the proportion of the security's
11 total return that is systematic?

12 A. Yes.

13 Q. Is it true that the measurement error is
14 due in part to substituting realized security price
15 movements for investor expected security price
16 movements?

17 A. That could be part of it, yes.

18 Q. You provided work papers in response to a
19 Staff Data Request RP 15.01 that were labeled McShane
20 WP9, do you recall that?

21 A. No.

22 Q. We had included in Staff Group Exhibit

1 Number 1 -- you say you don't have those with you?

2 A. If I do, I don't recognize it by the

3 number.

4 MR. OLIVERO: Okay. May I approach the

5 witness, please?

6 JUDGE YODER: Sure.

7 MR. FLYNN: Which one is it?

8 MS. BUELL: It's the third one down.

9 BY MR. OLIVERO:

10 Q. Do you have those, Ms. McShane?

11 A. I have this stack, yes. Did you point me

12 to one in particular?

13 Q. Oh, no, not yet. I am sorry. In your

14 monthly regressions did you use the total change in

15 stock price as your measure of stock returns?

16 A. No, just the price change.

17 Q. And in your weekly regressions how many

18 observations did you use?

19 A. A good question. It should be

20 approximately 260, but it may be slightly different

21 depending on how many weeks there actually were in a

22 year. But I think it tells in the page that you gave

1 me. No, it doesn't. Sorry. I believe it is 260.

2 Q. In your testimony you reference Value Line
3 several times, so you are familiar with that service,
4 correct?

5 A. Yes.

6 Q. Do you know how many observations does
7 Value Line use?

8 A. I believe they use 260 if they have them
9 and they don't do -- they don't calculate betas
10 unless they have a minimum number of observations. I
11 think it is two or three years worth, but I don't
12 recall exactly.

13 Q. Will the R Squared and the standard error
14 change as observations are added or dropped?

15 A. Yes, most likely.

16 Q. And in your regressions what day of the
17 week did you use?

18 A. I don't know the answer to that question.
19 I would have thought it was Friday, but I don't know
20 for sure. I don't think it makes any difference.

21 Q. Do you know what -- oh, I'm sorry.

22 A. I was going to say as long as it is

1 consistent.

2 Q. Do you know what day of the week Value Line
3 uses?

4 A. No, I don't.

5 Q. Do you know, if the day of the week for
6 regressions change from Friday to Wednesday, would R
7 Squared and the standard error change?

8 A. It could, but I wouldn't think that it
9 would change materially.

10 Q. If Wednesday data resulted in a higher R
11 Square and lower standard of error than Friday data,
12 would that signify that Wednesday's beta would be
13 better than Friday's beta?

14 A. I suppose literally, yes. But I wouldn't
15 choose to go to Wednesday versus Friday just on the
16 basis -- I mean, this analysis was intended to show
17 that there was a systematic difference between the
18 monthly approach and the weekly approach.

19 Q. Would you agree that statistical accuracy
20 is the degree of conformity of a measure or a
21 calculated quantity to its actual value?

22 A. Could you repeat that, please?

1 Q. Sure. Would you agree that statistical
2 accuracy is the degree of conformity of a measure or
3 a calculated quantity to its actual value?

4 A. What I understand you to be saying is that
5 statistical accuracy means that the resulting
6 equation will predict something close to the actual
7 value. So, yes, I would agree with that.

8 Q. Thank you. Would you also agree that
9 statistical precision is the degree to which further
10 measurements or calculations show the same or similar
11 results?

12 A. I have no reason to disagree with that
13 definition.

14 Q. Would you agree that standard error is a
15 measure of precision?

16 A. Standard error is a measure of how likely
17 the predicted value -- sorry, let me start over.

18 The standard error measures what the
19 possible range of error around the measured value is.
20 So, in other words, if you said -- if you measured a
21 beta .5 and the standard error is, let's say, .1,
22 what the standard error tells you is that the actual

1 value is highly likely to be within .5, plus or minus
2 .1.

3 Q. So you would not agree that standard error
4 is a measurement of precision?

5 A. Yeah, I guess you could call it a measure
6 of precision in the sense that it tells you how
7 confident you can be that what you have measured is
8 the right number.

9 Q. Would you agree that a statistical
10 population is a set of entities about which
11 statistical inferences are to be drawn, often based
12 on random sampling?

13 A. Yes.

14 Q. And would you agree that a sample is that
15 part of a population which is actually observed?

16 A. Yes.

17 Q. When estimating beta do you use a sample of
18 stock prices or the population of stock prices?

19 A. A sample.

20 Q. Do you recall giving a response to a Staff
21 Data Request JF 6.01?

22 A. Yes.

1 Q. Would you have that with you?

2 A. I believe I do.

3 Q. That's in the stack of group exhibits as

4 well.

5 JUDGE YODER: Early in the stack?

6 MR. OLIVERO: Linda would know where it is at.

7 MS. BUELL: Number 2.

8 A. I have that.

9 Q. In that response to Staff Data Request JF

10 6.01 you state that the statistics shown in Table 1

11 of page 9 of your surrebuttal testimony are widely

12 accepted as measures of the regression goodness of

13 fit. Do you agree that goodness of fit describes how

14 well a statistical model fits a set of observations?

15 A. Yes.

16 MR. OLIVERO: That's all we had.

17 JUDGE YODER: I believe Staff was the only

18 party that reserved cross. Do you have any -- do you

19 want to confer with your witness, Mr. Flynn?

20 MR. FLYNN: No, we have no redirect.

21 JUDGE YODER: Any objection to the admission of

22 Ameren Exhibit 7.0E and G for each of CILCO, CIPS and

1 IP and accompanying exhibits, Ameren Revised Exhibit
2 3.10, Ameren Exhibit 23.0 along with attached
3 schedules, and Ameren Exhibit 46.0 along with
4 accompanying exhibits. Any objection to those,
5 Mr. Olivero?

6 MR. OLIVERO: No, Your Honor.

7 JUDGE YODER: Anyone else have any objection to
8 those? All right. Those will be admitted into
9 evidence then in this docket.

10 (Whereupon AmerenCILCO Exhibits
11 7.0E and 7.0G, AmerenCIPS
12 Exhibit 7.0E and 7.0G, and
13 AmerenIP Exhibit 7.0E and 7.0G,
14 Ameren Exhibit 3.10 Revised,
15 22.0, 22.1, and 46.0 were
16 admitted into evidence.)

17 (Witness excused.)

18 MR. FLYNN: I guess we will have Mr. Adams.

19 JUDGE YODER: Mr. Adams, fine. All right.

20 Mr. Adams, you were previously sworn?

21 WITNESS ADAMS: Yes, I was.

22 JUDGE YODER: I was going to say Judge Albers

1 is coming down for Mr. Adams.

2 (Pause.)

3 MICHAEL ADAMS

4 called as a witness on behalf of Petitioners, having
5 been first duly sworn, was examined and testified as
6 follows:

7 DIRECT EXAMINATION

8 BY MR. FLYNN:

9 Q. Would you please state your name for the
10 record.

11 A. Michael Adams.

12 Q. Mr. Adams, by whom are you employed?

13 A. Concentric Energy Advisors.

14 Q. And did you cause testimony and exhibits to
15 be prepared for this proceeding?

16 A. I did.

17 Q. All right. Did you submit direct testimony
18 and exhibits marked as AmerenCILCO Exhibit 5.0E with
19 attached Exhibits 5.1 through 5.15E, AmerenCILCO
20 Exhibit 5.0G with attached exhibits 5.1G through
21 5.14G, AmerenCIPS Exhibit 5.0E with attached exhibits
22 5.1 through 5.15E, AmerenCIPS Exhibits 5.0G with

1 attached Exhibits 5.1 through 5.14G, AmerenIP Exhibit
2 5.0E with attached exhibits 5.1 through 5.15E, and
3 AmerenIP Exhibits 5.0G with attached Exhibits 5.1
4 through 5.14G?

5 A. Yes.

6 Q. And was that testimony and were those
7 exhibits prepared by you or under your direction and
8 supervision?

9 A. Yes.

10 Q. And are those exhibits true and correct to
11 the best of your knowledge?

12 A. They are.

13 Q. Did you also submit rebuttal testimony and
14 exhibits marked as Ameren Exhibit 21.0 with attached
15 Exhibits 21.01 through 21.15?

16 A. Yes.

17 Q. And are those exhibits -- were those -- is
18 that testimony and were those exhibits prepared by
19 you or under your direction and supervision?

20 A. Yes.

21 Q. And are they true and correct to the best
22 of your knowledge?

1 A. Yes.

2 Q. Did you also prepare surrebuttal testimony
3 marked as Ameren Exhibit 45.0 with attached Exhibits
4 45.1 through 45.5?

5 A. Yes.

6 Q. Were those -- was that testimony and were
7 those exhibits prepared by you or under your
8 direction and supervision?

9 A. Yes.

10 Q. Are they true and correct to the best of
11 your knowledge?

12 A. Yes.

13 MR. FLYNN: At this time we would move for the
14 admission into evidence of Mr. Adams' direct
15 testimony and exhibits, rebuttal testimony and
16 exhibits, and surrebuttal testimony and exhibits.

17 JUDGE YODER: All right. We will handle the
18 admissibility of those at the close of cross. I
19 believe Staff and the Attorney General has reserved
20 cross, is that correct? Staff, do you wish to begin?

21 MR. OLIVERO: Sure, I will go first.

22

1 CROSS EXAMINATION

2 BY MR. OLIVERO:

3 Q. Mr. Adams, my name is Jim Olivero. I
4 represent the Staff witnesses of the ICC. I would
5 just like to discuss with you this afternoon the
6 issue of capitalized payroll. I am going to refer
7 you to your surrebuttal testimony, Ameren Exhibit
8 45.0, pages 32 through 37. In that testimony you
9 discuss Staff witness Kahle's inclusion of gross
10 payroll in his cash working capital adjustment, is
11 that correct?

12 A. Yes.

13 Q. Do you agree that processing and paying
14 payroll is part of the Company's day-to-day
15 operations?

16 A. Yes.

17 Q. I am sorry?

18 A. Yes.

19 Q. Did you include any part of the payroll to
20 be paid in January 2009 in rate base in this
21 proceeding?

22 A. No, it is outside the test year.

1 Q. Will the Company require cash to meet its
2 payroll in January of 2009?

3 A. The Company requires cash to pay all of its
4 expenses, yes.

5 Q. Will a portion of the January 9, 2009,
6 payroll be capitalized?

7 A. Presumably, yes.

8 Q. And when will payroll be capitalized?

9 A. As the project is performed and people work
10 on the capital project, that portion is capitalized
11 and it is unitized and included in rate base.

12 MR. OLIVERO: Well, that's all the questions I
13 had on capitalized payroll. Thank you, Mr. Adams.

14 WITNESS ADAMS: You are welcome.

15 MS. VON QUALEN: I have a few questions for him
16 as well.

17 CROSS EXAMINATION

18 BY MS. VON QUALEN:

19 Q. Good afternoon, Mr. Adams. I am Jan Von
20 Qualen, also representing Staff witnesses.

21 A. Good afternoon.

22 Q. The first thing I would like you to do is

1 to look at your surrebuttal testimony at page 43. In
2 the first question and answer on that page you state
3 that both you and Joseph Weiss formerly were employed
4 by Navigant and now are employed by Concentric, is
5 that correct?

6 A. Yes.

7 Q. And then turning to page 44, on the third
8 question and answer on that page you discuss
9 Mr. Weiss' hourly billing rates. Do you see that?

10 A. Yes.

11 Q. And state that Ms. Ebrey's discussion of a
12 promotion was incorrect?

13 A. Correct.

14 Q. Just bear with me a second.

15 (Pause.)

16 I am looking for a response to TEE
17 18.08. It is in the group of exhibits. Just so
18 while I am looking if anybody else wants to look.

19 MR. FLYNN: TEE 18.08?

20 MS. VON QUALEN: Yes, it is towards the bottom.

21 (Pause.)

22

1 BY MS. VON QUALEN:

2 Q. I am showing you a copy of Ameren's
3 response to TEE 18.08 which was prepared by Andrew
4 Wichmann. Have you seen that before?

5 A. If I have, I don't recall it.

6 Q. Do you see that he discusses two
7 consultants which he names Consultant A and
8 Consultant B?

9 A. Yes.

10 Q. And the response states that Consultant A
11 was formerly associated with Navigant and then he was
12 employed by Concentric?

13 A. Yes.

14 Q. Do you know, Mr. Adams, is Consultant A
15 Mr. Weiss?

16 A. Presumably so. I don't know that for sure.
17 You would have to ask Mr. Wichmann.

18 Q. The response further states that Consultant
19 A was promoted. Do you see that?

20 A. I do.

21 Q. Have you been promoted since you moved to
22 Concentric?

1 A. No.

2 Q. Now referring you to the question and
3 answer that starts at the bottom of page 43 and
4 continues on to page 44. You discuss passing on
5 changes in billing rates to clients on existing
6 projects. Do you see that?

7 A. Yes.

8 Q. Has any Staff witness claimed that the
9 billing rates used for the rate case were incorrectly
10 billed to the client Ameren Services?

11 A. Staff witness Ebrey is, I believe,
12 proposing to disallow them because of the increase.

13 Q. Is it your understanding that her proposal
14 addresses Ameren Services paying for the increase or
15 Ameren Illinois utilities paying for the increase or
16 are you aware of a distinction?

17 A. There is a distinction. I mean, we did the
18 work for AMS which ultimately would have billed to
19 pay out of the Ameren Illinois utilities. So the
20 Ameren Illinois utilities would ultimately have borne
21 the cost.

22 Q. Well, Ameren Illinois utilities is

1 requesting to have recovery of the costs in this rate
2 case. You would agree with that?

3 A. Yes.

4 Q. But given that your contract is with Ameren
5 Services Company, would you agree with me that
6 actually Concentric should be billing Ameren Services
7 Company?

8 A. We do bill Ameren Service Company who in
9 turn bill the Ameren Illinois utilities.

10 Q. And would you agree with me that what
11 Ms. Ebrey has suggested is that Ameren Illinois
12 utilities should not be able to recover that
13 increase?

14 A. Can you state that again?

15 Q. Yes. Would you agree with me that
16 Ms. Ebrey's recommendation did not in fact address
17 Ameren Service Company at all but in fact addressed
18 whether Ameren Illinois utilities should be able to
19 recover that amount from ratepayers?

20 A. I just don't follow that distinction
21 because it is billed directly from AMS to the Ameren
22 Illinois utilities.

1 Q. I understand that you don't agree with it.
2 But do you understand that that is what her
3 adjustment is?

4 A. I understand. I just don't agree.

5 Q. Mr. Adams, do you know if Concentric or
6 Navigant at any time informed Ameren Illinois
7 utilities and Ameren Services Company that its
8 billing rates were going to be something other than
9 what was in the letter of agreement provided to Staff
10 in response to Staff Data Request TEE 2.28?

11 A. These would have went through the January
12 invoice. The January 2008 invoice would have
13 reflected the new rates.

14 Q. So to the extent that Concentric informed
15 Ameren Services Company, it wasn't through a letter;
16 it was through a monthly billing?

17 A. That's correct. And as the DR response
18 that you showed me states at the bottom, it says
19 actual post-filing support will be provided on a time
20 and material basis at CEA's then current rates.

21 Q. Now I am looking at page 47 in your
22 surrebuttal testimony. Do you see there that you

1 discuss the processes you used to prepare estimates
2 of cost to support the preparation and support of the
3 Ameren Illinois utilities' rate cases?

4 A. Yes.

5 Q. As I understand it, you prepared two
6 separate estimates, one for preparation of the rate
7 filings and a separate estimate to support the
8 filings, is that correct?

9 A. Yes.

10 Q. In the third sentence you say that the
11 estimate to support the filings is, quote, largely an
12 approximation of the likely to be incurred costs. Do
13 you see that?

14 A. Yes.

15 Q. Would you agree that that description would
16 be accurate for any budgeted amount?

17 A. Yes.

18 Q. It is also true, is it not, that the
19 estimate for cross associated with the preparation of
20 the rate cases is an approximation of likely to be
21 incurred costs?

22 A. But prepared with much better knowledge

1 because it is under our control of what needs to be
2 done within that time frame. Once the case is filed,
3 it is outside of our control. How many data requests
4 we get, what the direct and rebuttal testimony of the
5 parties look like, and there are factors in
6 post-filing support that are outside of our control.
7 So I have a much better comfort level of preparing
8 the estimate for preparation of the case than I do
9 for post-filing support.

10 Q. Thank you.

11 MR. FLYNN: Are you moving onto another area?

12 MS. VON QUALEN: Yes.

13 MR. FLYNN: Before you do, you asked Mr. Adams
14 about TEE 18.08 and who Consultant A was; and we can
15 stipulate that that was Mr. Weiss.

16 MS. VON QUALEN: Thank you.

17 MR. FLYNN: So there is no need to -- I mean,
18 you can go ask Mr. Wichmann if you want, but there is
19 no need to get that information from him. We will
20 stipulate that that's who A is.

21 MS. VON QUALEN: That's helpful. There goes
22 another third sentence.

1 MR. FLYNN: Every little bit.

2 BY MS. VON QUALEN:

3 Q. Now, Mr. Adams, I am going to draw your
4 attention to your direct testimony, and I am starting
5 out looking at page 3, but I don't know if you need
6 it or not; I have got it.

7 You are sponsoring a study related to
8 the services provided to the Ameren Illinois
9 utilities by Ameren Services Company?

10 A. Correct.

11 Q. And that would be on your Schedule 5.14?

12 A. Exhibit 5.14, yes.

13 Q. This is a study that Ameren Services
14 Company commissioned to determine whether the amounts
15 charged to the Ameren Illinois utilities were
16 reasonable?

17 A. At the request of the Ameren Illinois
18 utilities, yes.

19 Q. Was the study performed by you or under
20 your supervision?

21 A. Yes, it was.

22 Q. In that study did you make a determination

1 of the reasonableness of the costs?

2 A. Yes.

3 Q. Did you find that any of the costs were not
4 reasonable?

5 A. We had a question about a few items, but it
6 was nothing material.

7 Q. So in answer that is yes, that you found
8 they were reasonable?

9 A. Yes.

10 Q. I am assuming that all of the 197 service
11 requests review pages, all of the costs on those 197
12 pages, you found to be reasonable?

13 A. Correct.

14 Q. Now, if you would go to page 46 of Schedule
15 5.14 which is the study itself -- yeah, page 45, am I
16 correct that for the review of the service requests
17 which I am going to call SRs sometimes and service
18 requests sometimes, just so there is no confusion,
19 you identified 881 service requests that had the
20 allocation factors impacting the Ameren Illinois
21 utilities?

22 A. Correct.

1 Q. And your analysis focused solely on the SRs
2 that contained charges that were allocated to the
3 administrative and general accounts?

4 A. Correct.

5 Q. That was a total of 411 SRs?

6 A. Correct.

7 Q. Did you review the remaining 440 SRs?

8 A. I have, yes.

9 Q. Was that before you filed your direct
10 testimony and prepared your study?

11 A. Some of them were, yes.

12 Q. And when were the remainder of them
13 reviewed?

14 A. In preparing my testimony response to Staff
15 witness Lazare.

16 Q. Now, when you reviewed the -- how did you
17 determine which of the SRs to review?

18 A. In the report that followed my direct
19 testimony?

20 Q. Yes.

21 A. We looked at all of the A&G -- the SRs that
22 had A&G charges to the Ameren Illinois utilities, and

1 looked at those with dollars charged in excess of
2 \$50,000. So that came up with 197 SRs which account
3 for approximately 98 percent of the total dollars for
4 A&G.

5 Q. And how did you come to decide that \$50,000
6 was the cutoff to determine which of the SRs to
7 review?

8 A. Just an issue of materiality.

9 Q. You just made a professional judgment?

10 A. Correct, and it is a process-related review
11 as well. So, I mean, if the larger dollars are being
12 charged and allocated in an appropriate manner, we
13 made the assumption that everything under 50,000 was
14 as well.

15 Q. Looking at page 46, the first full
16 paragraph states CEA reviewed the charges to the
17 Ameren Illinois --

18 A. I am sorry, you are on the testimony or on
19 the --

20 Q. No, I am still in the study, 5.1.

21 A. Page 46, sorry.

22 Q. And I am looking at the first full

1 paragraph. It says CEA reviewed the charges to the
2 Ameren Illinois utilities and the description of the
3 work provided under the SR to assess the nature of
4 the services provided by AMS to the Ameren Illinois
5 utilities. What exactly did you review?

6 A. We reviewed the service request itself to
7 determine what the nature of the work was. We talked
8 to individuals both from AMS and to a lesser degree
9 to the Ameren Illinois utilities to speak
10 specifically about the service requests to find out
11 the type of work that was being performed, who was
12 performing the work, and how that work was being
13 charged. And then followed that through the review
14 process, including how the allocations -- once the
15 dollars are captured by the service request, how they
16 are allocated to the companies.

17 Q. The service requests, are they what's
18 attached to Appendix 6 or is this Appendix 6, this
19 service request review, is that something that you
20 created yourself?

21 A. That's a summary of the service requests.

22 Q. So the service request had more information

1 on it than what is provided in the service request
2 reviews on Appendix 6?.

3 A. Page 29 gives you an example of the service
4 request.

5 Q. Of your study?

6 A. Yes.

7 Q. Okay. So you reviewed a service request,
8 an example of which is on page 29, and did you review
9 -- and you spoke to some people at AMS and to a
10 limited degree people at AIU?

11 A. Recipients of the services, yes.

12 Q. And did you review any other documents?

13 A. Obviously, we reviewed all the financial
14 information associated with the service requests and
15 dollars that were collected and then the allocation
16 process.

17 Q. And were you familiar with the general
18 service agreement?

19 A. Yes.

20 Q. Did you review that in connection with your
21 review as well?

22 A. Yes.

1 Q. And then I am going to just have you
2 explain to me or describe to me how you created this
3 service request review. I am looking at page 1 of
4 Appendix 6, the first of the service request review
5 pages. It's got on the left-hand corner SRID. Is
6 that something that came from the actual service
7 request that you looked at?

8 A. Yes.

9 Q. And what about the project name?

10 A. Project name also is from the service
11 request.

12 Q. And Lead RNC?

13 A. Yes, that's also from the service request.

14 Q. What about the description?

15 A. That's also from the service request.

16 Q. The amount charged to Illinois utilities?

17 A. No, that would have been financial
18 information. The service request itself just
19 describes the services. It does not reflect an
20 ongoing summary of the dollars charged to the service
21 request. This is a summary of the actual dollars
22 charged for the service request.

1 Q. So is this something that you calculated or
2 is this something that you got from a document that
3 was given to you by either AMS or AIU?

4 A. We got it from the financial system of the
5 company.

6 Q. Of Ameren Services Company?

7 A. Well, yes. Actually, Ameren Corporation
8 because it's each of the subsidiaries of Ameren.

9 Q. Okay. And then going further down where it
10 says allocation, is that from the service request?

11 A. Yes.

12 Q. And allocation factor description, is that
13 from the service request?

14 A. The description is also on the service
15 request.

16 Q. And the same with that allocation formula?

17 A. The allocation formula is something we
18 added.

19 Q. Okay. When you conducted your review,
20 would it be safe to say that, as you created each of
21 these pages which are service request reviews, you
22 looked at the service request, you checked to make

1 sure everything was accurate and then you put it
2 altogether, and I guess you calculated what the
3 allocation formula was?

4 A. We didn't calculate it. I mean, that's
5 just what the allocation formula is.

6 Q. I am not a math person so it looks like a
7 calculation to me.

8 A. I don't want to leave you with the
9 impression that was the sum total of the work that we
10 did, either. You know, we reviewed each of the
11 service requests to determine whether the work that
12 was being performed made sense within the context of
13 a regulated utility and whether the type of work
14 being performed was necessary for the services that
15 they provide.

16 Q. Then did you also consider whether the
17 allocation in the allocation formula was appropriate,
18 given the services that were provided?

19 A. Yes.

20 Q. And that the description matched what was
21 actually done for the service request?

22 A. They go hand in hand. The description

1 follows the allocation number, if that's what you are
2 asking me.

3 Q. I wasn't asking if they go hand in hand,
4 but if they do, that's good. So the service request
5 reviews, the 197 service request reviews that are
6 included in Appendix 6, they are basically a summary
7 of your study and your name is behind it. You think
8 they are accurate; they accurately represent what
9 happened and how the costs should be allocated?

10 A. Yes.

11 Q. How the costs are allocated?

12 A. Yes.

13 Q. And of the 190 SRs that are included in
14 Appendix 6, they allocate 150,801,939 in costs to the
15 Ameren Illinois utilities?

16 A. Approximately, yes, out of a total of 118
17 million A&G charges.

18 Q. Looking again at the service request
19 review, on each one of them there is a grand total
20 and that grand total represents the amount billed by
21 AMS to the Ameren subsidiaries, is that correct?

22 A. To the Ameren subsidiaries, yes.

1 Q. And you reviewed the grand totals for each
2 of the 197 service requests?

3 A. Yes.

4 Q. And determined that each of those totals
5 was a reasonable amount for AMS to charge?

6 A. Correct.

7 Q. And each of the 197 service request reviews
8 also contains an allocator for allocating the grand
9 total to the Ameren subsidiaries, is that correct?

10 A. Yes.

11 Q. You reviewed each of the 197 allocators and
12 concluded that each of them is an accurate allocator
13 for the costs being charged by AMS under the
14 individual service request?

15 A. I believe I already answered that yes.

16 Q. In your opinion is there sufficient
17 information on each of these service request review
18 pages to determine whether the allocator is
19 appropriate?

20 A. For the most part, yes.

21 Q. And when you were reviewing the allocators,
22 did you take into consideration the GSA?

1 A. Yes.

2 Q. Would you agree that both the grand total
3 on each of the service request review pages and
4 allocation factor must be reasonable in order for the
5 amounts allocated to AmerenCILCO, AmerenCIPS and
6 AmerenIP to be accurate?

7 A. Could you repeat that?

8 Q. Would you agree that in order for the
9 amounts allocated to AmerenCILCO, AmerenCIPS and
10 AmerenIP to be accurate, both the grand total must be
11 accurate and the allocation factor that is used must
12 be accurate?

13 A. Yes.

14 Q. Would you also agree that if either the
15 grand total or the allocation factor is incorrect,
16 then the amounts allocated to AmerenCILCO, AmerenCIPS
17 and AmerenIP would be incorrect?

18 A. Not necessarily, no.

19 Q. How could the amounts allocated be accurate
20 if either the grand total or the allocator was not?

21 A. If the total dollars aren't reflected in
22 the service request for some reason, the allocation

1 would actually be lower than what the charge should
2 have been.

3 Q. So you are saying if the grand total is
4 incorrect and lower than it should have been?

5 A. Right. I don't think that's happening
6 here. I am just saying that's a scenario.

7 Q. And the allocator was correct?

8 A. Right.

9 Q. But even then the allocation wouldn't be
10 accurate, wouldn't be correct, as far as getting the
11 correct amount of allocation to each of the Illinois
12 utilities?

13 A. It would reflect an accurate allocation of
14 the dollars that are captured in the SR.

15 Q. The allocation would be correct, but the
16 dollars would be incorrect?

17 A. Correct.

18 Q. And I am looking again at the report itself
19 at page 46. You state, "A review of Appendix 6
20 provides a better understanding of the services
21 provided by AMS and the reasonableness of the
22 allocation factors used to allocate costs to each of

1 the Ameren subsidiaries." Do you see that?

2 A. Yes.

3 Q. So you believe the reasonableness of the
4 allocation factors for the 197 service requests can
5 be determined from a review of Appendix 6?

6 A. Yes.

7 Q. Is there anywhere else in your report from
8 which one could determine the reasonableness of the
9 allocation factors for those 197 service requests?

10 A. The other place would be in the
11 benchmarking work that was performed. We benchmarked
12 the costs for the entire utilities, looked at the A&G
13 expenses of each of the Ameren Illinois utilities,
14 both for the gas business, the electric business and
15 combined businesses. Benchmarked those against all
16 other utilities and also on a reasonable basis and on
17 a science basis, and then we also benchmarked on a
18 service cost basis or process cost basis the dollars
19 and compared those to other benchmarks that were
20 provided to us by a subsidiary or a contractor.

21 Q. Okay. But now the benchmark study, that
22 wouldn't help with any of the individual service

1 requests?

2 A. Correct, it would be in total.

3 Q. And do you believe that the reasonableness
4 of the grand totals for each of the 197 service
5 requests can be determined from a review of Appendix
6 6?

7 A. In large part, yes.

8 Q. How would you do that?

9 A. Look at the nature of the work. If you
10 look at page 1, for example, read for Ameren
11 Services, and the charges are actually for -- it
12 states right in the description that it is supporting
13 Illinois delivery services. So the costs are
14 appropriately charged to each of the Ameren Illinois
15 utilities based upon the electric and gas
16 distribution customers.

17 So it is looking at the title. It is
18 looking at the -- by title I mean project names --
19 looking at the description and looking at the
20 allocation basis that's used and making a judgment
21 call. And as I have stated in my rebuttal and all my
22 testimony, my direct, rebuttal and surrebuttal, a lot

1 of the service requests are actually direct charged
2 to the Ameren Illinois utility or to various, just to
3 the utilities. And looking at the basis of
4 allocation you can make a determination based upon
5 the nature of the work whether that allocation is
6 appropriate.

7 Q. So you found it appropriate to have an
8 allocation factor based on a number of electric and
9 gas distribution customers for a project that
10 captured the costs of providing facilities to AMS
11 employees supporting the Illinois delivery services?

12 A. What page are you looking on?

13 Q. Page one.

14 A. Yes.

15 Q. Are those delivery services for electric
16 and gas?

17 A. Yep.

18 Q. Looking at the grand total which is ten
19 million plus, how would a person looking at this know
20 that that grand total was reasonable as opposed to a
21 grand total of nine million or fifteen million?

22 A. In this case it doesn't really matter

1 because the same dollar amount actually comes through
2 as other revenues for the companies, and it is a wash
3 to the Illinois customers. These are actually
4 facilities that are owned by the Ameren Illinois
5 utilities that Ameren Services Company personnel sit,
6 reside in, and they charge the Ameren Illinois
7 utilities rent and then give it -- basically it flows
8 back to the Ameren Illinois utilities as a wash.

9 Q. And how would you know that by looking at
10 this, if you were someone like me on staff?

11 A. Ask the question, I guess.

12 Q. Do you have a copy of the GSA with you
13 today?

14 A. I do. What version? I have got one that
15 was approved in March of '08. I think it is the
16 latest one.

17 Q. I have the one that was attached to
18 Mr. Lyons' testimony.

19 A. I don't know what version that was.

20 Q. It was signed in February 23 of '07.

21 MR. FLYNN: I can give him a copy you gave me
22 earlier.

1 MS. VON QUALEN: I can give you another copy.
2 We can just pass them around.

3 Q. Now, would you agree that the GSA
4 identifies the various departments of AMS which
5 provide services to Ameren's subsidiaries? And I
6 think this is in the appendix after the signature
7 page.

8 A. It lists the expected services to be
9 provided, yes.

10 Q. For example, the first department is
11 Billing Service followed by Business Services?

12 A. That's correct.

13 Q. And in each of these departments the GSA
14 provides for each of these departments a list of
15 expected allocation factors?

16 A. Expected, yes.

17 Q. For example, a total assets allocator is
18 used for Billing Service but not for Controller,
19 would you agree?

20 A. I am sorry, what was that one?

21 Q. That the total assets allocator is used for
22 Billing Service but is not used for Controller?

1 A. Correct.

2 Q. Would you agree that an allocator that
3 would properly be used by one department may be
4 improper for another department?

5 A. It depends on what the service is, yes, and
6 the nature of the allocator.

7 Q. So that would mean in some cases it would
8 be okay and in some cases it would not be okay?

9 A. You would have to give me a specific to
10 answer the question.

11 Q. How about in the example, the first example
12 that I gave you, the total assets allocator we just
13 used for Billing Service, would it be appropriate to
14 use for Controller?

15 A. I can't think of a reason total assets
16 would be used then.

17 Q. When you reviewed these service requests
18 and created this service request review, did you work
19 off this GSA to determine what allocation factors
20 should be used?

21 A. No.

22 Q. No?

1 A. No.

2 Q. So you didn't go by this list of
3 departments to determine what the allocation factor
4 should be?

5 A. No. We did verify for the most part that
6 the allocators were in here, but we didn't -- I mean,
7 a lot of the charges are direct charged so direct
8 does not show up on every one of these services.

9 Q. So in your view it was not necessary to
10 know which department of AMS was providing the
11 service?

12 A. Oh, that's on the chart. That's on the
13 accompanying exhibit.

14 Q. It is? Could you show me where or describe
15 for me where?

16 A. It's the Lead RNC. I mean, the RNCs match
17 up to a function, and the function would be like
18 controller. So you match up the RNCs with the known
19 controllers. And we actually show that list back on
20 page 36. That lists the functions and the associated
21 RNC. So once you know the RNC, you can find out what
22 the function is and tie it back to the SR.

1 Q. Could you give us an example of how to use
2 this? I am on the first page of this, page 1 of 197.

3 A. Page 1 doesn't have an RNC on it
4 necessarily. It is applicable to all AMS service, so
5 that's a bad example. But if you get into, for
6 instance --

7 Q. Okay. Let's go back a little bit because I
8 am a little confused right now. I thought I
9 understood you to say if you look at the lead RNC you
10 could tell what department or what allocation factor
11 we were using?

12 A. No, not the allocation factor. What I said
13 is the RNC ties back to the chart on page 36. If you
14 look at that, you roll it up to what's -- I don't
15 know if yours is in color or not. But, for instance,
16 Accounting is in the first column on the left, the
17 second grouping. Do you see Accounting? Under
18 Controller.

19 Q. Oh, yes.

20 A. So Controller is your function which then
21 ties back to the GSA Controller.

22 Q. So how can we use this 190- apportionment

1 on the first page in conjunction with this Figure 4?

2 A. You can't because it is somewhat of an odd
3 duck because all AMS charges come through that. It
4 is not function specific.

5 Q. And the same would be true on the second
6 page?

7 A. Yes.

8 Q. About how many of these pages in this 197
9 actually could be?

10 A. Just give me -- real quickly I would say
11 probably those two were not and all the rest of them
12 could.

13 Q. Okay. So page 3 could do it?

14 A. Yes. If you look at the first column in
15 Figure 4-4 under Ameren Services Center, a little
16 less than half way down, you get DEV, energy
17 delivered.

18 Q. So what department would that be?

19 A. It would be a function of Ameren Services
20 then. DEV is actually part of information technology
21 which is part of Ameren Services.

22 Q. And is that any of the departments that are

1 listed on this description of expected services in
2 the GSA?

3 A. I didn't hear you, I am sorry.

4 Q. Is that included in this list of
5 departments in the GSA?

6 A. Is what included?

7 Q. Ameren Services. What I am trying to get
8 at is how we would connect this Lead RMC to the GSA.

9 A. Information services, yes. This is -- it
10 seems to be copied over twice or something, so I
11 can't tell what page it is on.

12 Q. Mine has the same problem.

13 A. It is letter O in the list of the
14 descriptions of expected services, information
15 services.

16 Q. I see that. But I still can't make the
17 connection how I would go from Lead RMC, only looking
18 at the service request review, and come to
19 information services to know what the allocation
20 should be. Can you help me with that?

21 A. On this one, I mean, I would just look at
22 the description of the work being performed. I mean,

1 it is cost associated with custom service system
2 Phase 3 implementation. Maybe that means nothing to
3 you. That means to me that it is an informational
4 technology project. So that's how I know to go to
5 the GSA and look under information services.

6 Q. So with your knowledge you can look at each
7 of these 197 pages and determine which of the
8 departments in the GSA they would be tied in with?

9 A. I would think anyone with any utility
10 knowledge would be able to, yes.

11 Q. Now looking again at that schedule on the
12 GSA, that list of departments -- I am sorry, the last
13 two pages in the GSA, expected allocated direct cost
14 factors, would you agree that those two pages present
15 all of the allocators employed in the GSA?

16 A. No. In the GSA?

17 Q. Yes.

18 A. Or in my study, which one?

19 Q. GSA.

20 A. GSA. The answer is still no. I mean, it
21 describes back beginning on page 3, continuing onto
22 page 4 under Compensation of Service Company, it goes

1 through the concept of indirect charges and overhead
2 charges. These particular allocators which are part
3 of the GSA are not listed on those two pages.

4 Q. Does the GSA say what can and what cannot
5 be an indirect allocator?

6 A. Well, I mean, I think it describes what's
7 used. Indirects are either corporate or functional.
8 In other words, functional takes all of the dollars
9 that are allocated to a particular function, such as
10 information technology. And then for those that use
11 an indirect, allocate those service requests based
12 upon the total charged to that service request. Same
13 with the indirect corporates. They take the dollars
14 and allocate them based upon the wealth of charges to
15 an individual corporation. So it doesn't lay out a
16 specific service request, but it describes how it
17 works -- or, excuse me, an allocator but it describes
18 how it works.

19 Q. Does it say what kind of function can be
20 used?

21 A. It defines functional and direct cost such
22 as office supplies or secretarial labor, is the

1 example it gives. It doesn't go on and describe them
2 all.

3 Q. Is there any function that would not be
4 allowed for indirect function based upon the GSA?

5 A. Can you repeat that or read it back?

6 MS. VON QUALEN: Carla, can you read that back?

7 (Whereupon the requested portion
8 of the record was read back by
9 the Reporter.)

10 WITNESS ADAMS: Can you restate it? I didn't
11 understand the question.

12 BY MS. VON QUALEN:

13 Q. Is there any -- does the GSA indicate that
14 there are any indirect functions that could not be
15 used as an allocator?

16 A. It doesn't identify the specific functions
17 that will be using indirect allocators. I mean, it
18 just uses the words functional and corporate. So
19 whatever functions are within the company presumably
20 could be used as an indirect allocator.

21 Q. Is there anything in the GSA that says that
22 non-fuel O&M cannot be used as an indirect allocator?

1 A. I don't consider that an indirect
2 allocator. An indirect allocator as described within
3 the GSA is accumulating all the costs that are
4 charged to a particular function and then allocating
5 some service requests based upon the total that is
6 charged. So using non-fuel O&M is not an indirect
7 allocator. It is an allocator that Staff witness
8 Lazare uses. It is not mentioned anywhere in the
9 GSA.

10 Q. Is the use of it prohibited by the GSA?

11 A. If you read the GSA in its entirety, you
12 can see that it is for the most part based upon cost
13 causation principles, and I don't think that non-fuel
14 O&M is an allocator that is used for cost allocation
15 purposes for the type of services provided. Is it
16 prohibited? I don't -- I will leave that to the
17 lawyers.

18 Q. In your rebuttal testimony at page 13, line
19 237 to 239.

20 A. 237 to 239?

21 Q. Yes. Are you there?

22 A. Yes.

1 Q. You criticize Mr. Lazare's adjustment
2 because he started with a figure from Ameren's Form
3 60, do you see that?

4 A. Yes.

5 Q. And you criticized it because it does not
6 reflect whether costs were capitalized or expensed?

7 A. I believe what I am saying is Staff witness
8 Lazare's amount that he started with for adjustment
9 purposes included capitalized dollars to the tune of
10 about \$55 million, and he treats those as if they are
11 expensed and disallowance them from operating
12 expenses. And I am saying that's inappropriate.

13 Q. Can you tell me from looking at the service
14 request reviews in Appendix 6 whether costs were
15 capitalized or expensed?

16 A. Those were A&G expenses only. There were
17 no capitalized dollars in there.

18 Q. And did you explain that in your report?

19 A. Yes, the whole report was on A&G expenses
20 only.

21 Q. You are aware of the Commission order in
22 the last Ameren rate case rehearing?

1 A. I am.

2 Q. Are you aware or would you like to see a
3 copy of the order that the Commission found in
4 regards to Ms. Vaughn's (sp) exhibits? Would you
5 like to see a copy of that?

6 A. It depends on where you are going with the
7 question. I don't know what you are going to ask.

8 Q. Let me know if you want to see this. In
9 regards to DR 54.6 and 56.2, "also provide
10 information regarding the amounts charged by AMS to
11 its affiliates. These exhibits identified over 1400
12 projects for which AMS assessed charges on one or
13 more of the Ameren affiliates. Some of the entries
14 in these exhibits do not reflect charges on CILCO,
15 CIPS or IP.

16 "Although useful in determining the
17 total charges for AMS projects and what portion of
18 those charges has been assessed to each affiliate,
19 the Commission is left with no information regarding
20 the appropriateness of the costs themselves. In
21 other words, while the underlying work may have been
22 necessary, the Commission has no way of knowing if

1 the amount charged for the work done is reasonable
2 because there is no indication of what was actually
3 done.

4 "Moreover, in many instances it is not
5 clear what some of the AMS projects entail, even to
6 Ameren witness Adams who sponsored these exhibits."

7 You are aware of that finding by the
8 Commission in the last rate case?

9 A. I am.

10 Q. Do you have a copy of your Exhibit 56.2
11 from that case with you today?

12 A. No, I do not.

13 Q. I am going to show you what is not an
14 entire copy of 56.2; it is a partial copy. And I am
15 only going to reference the first page so I have a
16 couple copies of the first page here.

17 Now, in the last order on rehearing
18 the Commission expressed a concern that the
19 descriptions in 56.2 provided no indication of what
20 was actually done, right?

21 A. If you say so.

22 Q. Now, would you agree that none of the 197

1 service request reviews presented in Appendix 6
2 include a breakdown of the grand total of costs into
3 individual cost components?

4 A. What does that mean?

5 Q. That means that if you look at Appendix 6,
6 would you agree with me that, absent your expertise,
7 your knowledge, no one could tell what are the cost
8 components included in the costs for the service
9 company?

10 A. What do you mean by a cost component?

11 Q. A breakdown of what caused the costs.

12 A. I still don't understand your question.

13 Q. If you look at page 1.

14 A. Page 1 of --

15 Q. 197 of Appendix 6. How would one know what
16 the components of that cost were?

17 A. Again, I am not sure what you mean by
18 components. I mean, it says that it is associated
19 with providing facilities to AMS employees supporting
20 Illinois delivery services. That to me -- and since
21 the project name is Rent for Ameren Service
22 Employees, I think it's fairly obvious what that is.

1 Q. In a general sense. But would you agree
2 with me that there is not simply one bill titled Rent
3 that Ameren Services received and then allocated to
4 the three Ameren Illinois utilities?

5 A. I am not following your question.

6 Q. When you are referring to the rent, my
7 understanding -- and you can correct me if I am
8 wrong -- but there wouldn't be only one bill that
9 Ameren Services Company received and it is being
10 allocated here. My expectation would be that there
11 were dozens or a hundred different bills that were
12 all included in this \$10 million figure?

13 A. That would be for various facilities, yes.

14 Q. That would be the components I am asking
15 about.

16 A. I am not sure what that gives you any more
17 than this. I mean, this is rent for the AMS
18 employees. Physically knowing where an AMS employee
19 sits, I am not sure helps you.

20 Q. If Staff wanted to look at Appendix 6 and
21 make a determination as to whether the costs were
22 reasonable, would you agree that Staff would need to

1 know what the components were of that \$10 million
2 figure in order to determine whether or not it was
3 reasonable?

4 A. Again, I am not sure if I list them. I
5 don't know what you are looking for. Because other
6 than giving you a cost per employee head count or
7 something like that, I don't know what you would use
8 to tell you that we have got people or Ameren -- AMS
9 has employees in the Illinois building and there is
10 rent associated with that. I don't know what that
11 tells you any more than having a total. I mean, this
12 is how much they pay for rent for facilities that are
13 owned by Ameren Illinois utilities that then, as I
14 said, flows back through other revenues.

15 Q. If you would look at those several pages of
16 56.2 that I gave you, a copy of 56.2, and just look
17 at the first page to go through line number 3. You
18 see that that is Project A 0866?

19 A. Yes.

20 Q. And now if you turn to page 2 of the
21 appendix, that appears to be the same project, is
22 that correct?

1 A. Yes.

2 Q. Would you agree that the service request on
3 page 2 of Appendix 6 allocates more than \$9 million
4 of the \$21 million total to the Ameren Illinois
5 utilities?

6 A. Yes.

7 Q. And it has the same project name, Rent for
8 Ameren Services Employees, as the project on line 3
9 of 56.2?

10 A. It has the same project, yes.

11 Q. So would you agree it is the same project?

12 A. Yes.

13 Q. The description for the service request on
14 page 2 of Appendix 6 is the services provided under
15 this SR or for rent for AMS employees. Major
16 activities include the cost of rental space occupied
17 by AMS employees. Do you see that?

18 A. Yes.

19 Q. Would you agree that no additional
20 information is provided in the description on page 2
21 of Appendix 6 than was provided for the same project
22 in Exhibit 56.2?

1 A. Just slightly more, but.

2 Q. But basically it is the same information,
3 you would agree with that?

4 A. For that one, yes.

5 Q. Now, if you would look at line 5 on page 1
6 of Exhibit 56.2, this is Project A 2029?

7 A. Okay.

8 Q. And the description on 56.2 is CSS Phase 3
9 (O&M)(EFF 1-1-2001), correct?

10 A. Yes.

11 Q. Now if you will turn to page 3 of Appendix
12 6, this is the same project, you agree?

13 A. Yes.

14 Q. Would you agree that the service request
15 allocates more than four and a half million dollars
16 to the Ameren Illinois utilities?

17 A. Yes.

18 Q. And it has the same project name as the one
19 we discussed on 56.2?

20 A. Yes.

21 Q. And it appears to be the same project?

22 A. It is, yes.

1 Q. The description for the service request on
2 Appendix 6 is, "This SR captures the costs associated
3 with the CSS Phase 3 implementation. Major costs
4 include the depreciation of project implementation
5 costs." Do you agree?

6 A. Yes.

7 Q. Do you believe this description provides a
8 more complete explanation of the CSS Phase 3 project
9 than the description in 56.2?

10 A. Yes, I do.

11 Q. Explain.

12 A. It says clearly that it is depreciation
13 expense associated with customer service.

14 Q. Does it explain what the project is?

15 A. Customer Services System. I do make a
16 presumption that the folks that I am dealing with
17 have some understanding of the utility business and
18 what customer service demands. So maybe I didn't go
19 into great detail explaining what it was.

20 Q. Would you turn to page 18 of Appendix 6?
21 The description for this service request states, "The
22 purpose of this SR is to track labor and expenses

1 associated with the consolidated Illinois proposed
2 2006 electric rate case." Do you see that?

3 A. Yes.

4 Q. And it is allocated based on the number of
5 electric and gas distribution customers?

6 A. Correct.

7 Q. Do you think it is reasonable to allocate
8 electric utility rate case costs in part according to
9 the number of gas customers?

10 A. It is electric only; it should be customers
11 only.

12 Q. Turning to page 19, you see the project
13 name is Illinois Regulatory Policy - electric?

14 A. Yes.

15 Q. According to the allocation factor
16 description it is allocated based on a number of
17 electric and gas distribution customers. Do you see
18 that?

19 A. Yes.

20 Q. Do you think it is reasonable to allocate
21 Illinois regulatory policy - electric in part
22 according to the number of gas customers?

1 A. The same answer I just gave. I mean, if it
2 is electric only, in fact yes. It should be to
3 electric customers.

4 Q. Looking at page 20, this project is
5 maintains general books and financial records. Do
6 you see that?

7 A. Yes.

8 Q. The description for this service request
9 states the services provided under this SR are to
10 maintain the books and financial records of the
11 affiliated companies of the Ameren Corporation. Do
12 you see that?

13 A. Yes.

14 Q. Can you explain why the allocation factor
15 used, which is number of general ledger transactions,
16 is better for these costs than the other expected
17 allocation factors for this department?

18 A. Because it is maintained in the books and
19 records of the company so that's transaction-based.
20 So choosing an allocation factor based on general
21 ledger transactions would be appropriate.

22 Q. What department provided the services on

1 this request?

2 A. Accounting.

3 Q. Is there an accounting department in the

4 GSA?

5 A. I believe it is under Controller.

6 Q. So it is a controller department?

7 A. The description is performs all accounting

8 services as necessary, properly maintain and report

9 on the books and records of the company. The number

10 of general ledger transactions is one of the expected

11 allocation factors.

12 Q. Would you turn to page 22? This project

13 name is Corporate Membership Handling. Do you see

14 the description for this service request states, "The

15 services provided under this SR include all aspects

16 of corporate membership including filing, typing,

17 invoice processing, preparing and maintaining the

18 budget and membership dues and expenses"?

19 A. Yes.

20 Q. Ameren CIPS is allocated \$340,377 of these

21 costs?

22 A. Correct.

1 Q. And Ameren Energy Generating, which I
2 believe is abbreviated GEN, is allocated only
3 \$126,105, is that correct?

4 A. Yes.

5 Q. Is there any evidence on the record to show
6 why AmerenCIPS should receive two and a half times as
7 much cost as Ameren Energy Generating?

8 A. The allocation is based upon the allocation
9 factor which is a composite of electric and gas
10 sales, customers and employees, which are three
11 different factors. So it is spread through the
12 companies based on that allocation factor.

13 Q. And how does that reflect the corporate
14 membership in Ameren?

15 A. They earn company benefits from them, so
16 there is an allocation to them.

17 Q. So can you explain to me how it would be
18 reasonable for AmerenCIPS to pay two and a half times
19 what Ameren Energy Generating would pay for a
20 corporate membership?

21 A. Under a composite allocator, they have
22 higher sales, a higher number of customers, a higher

1 number of employees. So with those three factors,
2 they would be allocated a higher cost.

3 Q. Why would that be a reasonable way to
4 allocate these cost for corporate membership?

5 A. There is no way to determine a direct cost
6 causation, if you will, for the corporate memberships
7 so you have to use some type of allocation
8 methodology, and it was determined that the composite
9 allocation was the best way to spread the cost.

10 Q. Who determined that?

11 A. It was a combination of Ameren Services and
12 the benefactors of the different Ameren subsidiaries
13 that benefitted from that particular service.

14 Q. How did you when you did your review
15 evaluate whether that was a reasonable allocation
16 factor?

17 A. To look at them based upon an allocation
18 factor which would spread those costs to each of the
19 utilities -- excuse me, not each of the utilities,
20 each of the Ameren subsidiaries based upon some
21 weighting, and the composite seemed appropriate.

22 Q. Can you tell me anything that would clarify

1 to me why the number of customers would be an
2 appropriate way to allocate corporate membership?

3 A. It is just one of the three factors. But
4 some of the corporate memberships are involvement in
5 the community for the customers' benefit. So,
6 therefore, it is appropriate to include customers.

7 Q. And that would not relate to Ameren Energy
8 Generating?

9 A. They don't have customers.

10 Q. If you would turn to page 23, do you see
11 that this SR review identifies a grand total of
12 2,683,531?

13 A. Yes.

14 Q. The description says, "This SR records the
15 increase or decrease in vacation liability for Ameren
16 Services employees." Do you see that?

17 A. Yes.

18 Q. Do you see any explanation on this page or
19 is there any anyplace else in the record concerning
20 how this grand total of 2,683,531 in vacation
21 liability was determined?

22 A. It was determined based upon the increase

1 or decrease in vacation liability of the SR company.
2 It is a recorded dollar amount that as people come
3 and people go based upon the vacation that they use
4 or don't use, there is a dollar amount that's a
5 liability that they have to show on the books, and
6 that's what this dollar amount is.

7 Q. And where was that provided in the record?

8 A. Page 23. I am not following your question.
9 I mean --

10 Q. My question is how would someone reviewing
11 this be able to confirm what it represented?

12 A. By the description. I mean, I am not
13 trying to be flippant here, but I mean, this is a
14 vacation liability which is a liability on the books
15 of the company. I mean, someone could look at the
16 liability of the company. We would request the
17 financial records and look at the liabilities, and
18 this would be an item included in the liabilities.

19 Q. But there is no showing, is there, of how
20 this liability was calculated?

21 A. No, there is not a calculation here.

22 Q. If you would turn to page 25, the project

1 name for this is Allocated Regulatory - Electric. Do
2 you see that?

3 A. I do.

4 Q. Looking at the allocation factor
5 description and the allocation formula, would you
6 agree with me that this is allocated in part based
7 upon the level of gas sales?

8 A. I would. But what I can't tell you is the
9 project name truncated.

10 Q. I am sorry?

11 A. I am questioning whether the project name
12 is truncated.

13 Q. Well, how would one know?

14 A. I would have to go back and look because
15 that is a truncated field. It only allows so many
16 letters. Given the nature of the description, I am
17 thinking that is a truncated field.

18 Q. So right now you can't tell me if that was
19 a reasonable allocation or not, is that correct?

20 A. Based upon this single page.

21 Q. But you would agree with me, wouldn't you,
22 that if Staff looked at it to determine whether it

1 was a reasonable allocation factor, Staff would have
2 every reason to question it?

3 A. The split between electric and gas
4 possibly, but not necessarily the type of expense. I
5 mean, it is a regulatory expense. I don't think
6 there is any issue as to whether regulatory expenses
7 are for regulated companies.

8 Q. But as to the allocation factor?

9 A. Between electric and gas, I will have to
10 check that.

11 Q. Turn to page 33. Do you see that the
12 project name for this SR is the Illinois Process/Rate
13 Design?

14 A. Yes.

15 Q. Looking at the allocation factor
16 description and the allocation formula, would you
17 agree that this SR is allocated in part based upon
18 the level of gas sales?

19 A. Yes.

20 Q. Yet when you did your review of this SR,
21 you determined it was a reasonable allocation,
22 correct?

1 A. Yes.

2 Q. As you sit there today do you believe it is
3 a reasonable allocation?

4 A. Again, it probably should have been
5 allocated just to the electric company distribution
6 customers.

7 Q. Would you turn to page 176? Would you
8 agree that the description for this service request
9 says that this SR captures the costs associated with
10 public claims for UE and CIPS?

11 A. Yes. I will say that that description just
12 wasn't updated from the original service request when
13 it was formed. Some of these service requests may
14 have existed since the merger between UE and CIPS.
15 And as with the acquisition of CILCO and Illinois
16 Power, some of the descriptions just have not been
17 changed.

18 Q. But it was my understanding that you
19 testified earlier that when you prepared these
20 service request reviews you checked them for
21 accuracy?

22 A. Based upon the nature of the work

1 performed, that is correct.

2 Q. Okay. So the nature of the work performed
3 has not changed?

4 A. Correct. When you say not changed, it's
5 the same -- the description here may be wrong. It
6 should be broader than UE and CIPS and include all
7 companies.

8 Q. Do you know that today, sitting here today,
9 that that's the case?

10 A. I am fairly certain that it is, yes.

11 Q. And do you know why this description was
12 not changed before it was put into the evidence in
13 this docket?

14 A. Because some of the service requests had
15 not been updated by Ameren Services.

16 Q. I understand that. But when you conducted
17 your review, why is it that you did not reflect that
18 in your description?

19 A. Because we reflected the descriptions that
20 were on the individual service requests maintained by
21 Ameren Services. We did not go in and change the
22 descriptions to accommodate the change.

1 Q. You would agree that this was allocated to
2 CILCO, CIPS and Illinois Power Company, would you
3 not?

4 A. And UE, yes.

5 Q. And when you conducted your review, it was
6 based upon this description that said it was
7 regarding the claims asserted against UE and CIPS?

8 A. That's partially correct. I said we spoke
9 with people who were responsible for the work as well
10 as determined from them what the nature of the work
11 was. The description, as I said, is basically a link
12 to the service request system. So to the extent that
13 that description has not been updated, it would not
14 be updated in this analysis as well. It doesn't mean
15 that what's shown here is wrong. The allocation is
16 appropriate based upon the actual work that was
17 performed.

18 Q. But there would be no way for anyone
19 reviewing these service request reviews in this
20 docket to know that the service requests had been
21 updated and included other Ameren Illinois utilities,
22 would there?

1 A. For that particular one, no.

2 Q. And I suppose that if that happened for
3 this particular service request, it could have
4 happened for other service requests as well?

5 A. You would have to show me specifics.

6 Q. Can you say that it has not?

7 A. No. I can't say that it has, either.

8 Q. And then wouldn't it also be possible that
9 some of these descriptions that include all three
10 Ameren Illinois utilities, perhaps one of them should
11 no longer be included?

12 A. No, not likely.

13 Q. It is not likely or impossible?

14 A. It is not likely because the description
15 didn't change with the acquisition of the companies.
16 They haven't divested any of the companies. So I
17 don't see that particular example playing a role.

18 Q. Would you turn to page 40 of Appendix 6?

19 A. Page 40 of Appendix 6?

20 Q. Yes. The project name for this service
21 request is Oracle SW Implementation Expense, correct?

22 A. Yes.

1 Q. This project, the description states this
2 project captures the costs associated with
3 implementing Oracle software, is that correct?

4 A. Yes.

5 Q. Have you provided any explanation here or
6 anywhere in your testimony concerning the purpose of
7 this software?

8 A. The purpose of the Oracle software?

9 Q. Yes.

10 A. No, I have not.

11 Q. You would agree that the three Ameren
12 Illinois utilities are allocated more than 52 percent
13 of these costs?

14 A. Yes.

15 Q. Based on information provided on page 40
16 how could anyone determine that that was a reasonable
17 percentage for the Ameren Illinois utilities to pay?

18 A. It's a system that's used primarily for
19 financial reporting, and it would be based upon, you
20 know, the different types of activities that the
21 corporations perform.

22 Q. I understand that you may have that

1 knowledge, Mr. Adams. But how would anyone looking
2 at this page know that?

3 A. Again, the question may have to be asked.

4 Q. Would you turn to page 44? The project
5 name for this SR is Asbestos Exposure Litigation. Do
6 you see that?

7 A. Yes.

8 Q. And the description for this service
9 request states, "This SR tracks labor and expenses as
10 related to third-party suits involving asbestos
11 exposure at AmerenUE, AmerenCIPS and Ameren
12 generating sites. Major activities include general
13 counsel activities, risk management, energy delivery
14 technical services, real estate purchasing,
15 environmental safety and health, and power operations
16 and generation systems," is that correct?

17 A. Yes.

18 Q. Although the service request review
19 discusses asbestos exposure at Ameren generating
20 sites, do you agree that none of these costs were
21 allocated to the generation affiliate?

22 A. Could you repeat that?

1 Q. Although the description of this service
2 request includes exposure at Ameren generating sites,
3 do you agree that none of the costs were allocated to
4 the generation affiliate?

5 A. By the generation affiliate, you are
6 talking about GEN?

7 Q. Yes.

8 A. Yes.

9 Q. Can you point to any evidence in the record
10 that indicates why Ameren Energy Generating should
11 receive none of these costs?

12 A. My understanding of the term of the
13 acquisition of CIPS is that that particular liability
14 was retained by CIPS as opposed by the generation or
15 the divestiture of the generation, excuse me.

16 Q. And how would one determine that by looking
17 at page 44 or elsewhere in the record in this docket?

18 A. Just looking at the cost it charged to
19 CIPS. I mean, I don't have a copy of the order
20 attached to the service request.

21 Q. Would you turn to page 62? The project
22 name for this service request references Post-2006

1 Initiatives, correct?

2 A. Yes.

3 Q. Would you agree that these are costs for
4 Ameren's electric utilities?

5 A. In Illinois, yes.

6 Q. Would you agree that the allocation was
7 based in part on the number of gas distribution
8 customers?

9 A. Can you go back to your question prior to
10 that? I am sorry.

11 Q. Do you agree that these are costs for
12 Ameren's electric utilities?

13 A. No, I am sorry, I misspoke, no. This is
14 just total rate case post-2006 initiatives. It is
15 not gas; it is just electric.

16 Q. And how would one know that by looking at
17 the service request review?

18 A. Again, just looking at the allocation
19 factor.

20 Q. I'm sorry?

21 A. The allocation factor is what in this
22 particular case is telling me it is electric and gas.

1 Q. So rather than going by the project name or
2 description to determine the allocation factor, you
3 are deciding that the service request includes
4 electric and gas because of the allocation factor?

5 A. It is in the entirety. You have to look at
6 the project name. You have to look at the
7 description. You have to look at the allocation
8 factor. And in my case I spoke to people within
9 Ameren Services that performed the work.

10 Q. Would you turn to page 100? This project
11 name refers to Illinois regulatory policy, do you see
12 that?

13 A. Yes.

14 Q. And do you see that according to the
15 allocation factor description, this is allocated in
16 part based upon the number of electric distribution
17 customers?

18 A. Yes.

19 Q. Do you find that to be reasonable?

20 A. Again, it is a question of allocation
21 between electric and gas. I don't think there is any
22 question that it should be allocated to the Ameren

1 Illinois utilities.

2 Q. Is that a yes or a no answer as to whether
3 this is reasonable?

4 A. It should have been to gas.

5 Q. Would you turn to page 114? The project
6 name for this service request is Corporate Analysis
7 Allocated - Electric, do you see that?

8 A. Yes.

9 Q. The allocation factor, description and
10 formula indicate that gas sales customers and
11 employees factor into the allocation of this service
12 request, is that correct?

13 A. Yes.

14 Q. Do you think it is reasonable to allocate
15 those costs in part according to gas sales?

16 A. Again, the allocation due to the Ameren
17 Illinois utilities, I don't think there is any
18 question that it is split between electric and gas.
19 So it does appear to be -- well, strike that. Never
20 mind.

21 Q. So you agree that it is not reasonable to
22 allocate some of these costs to the gas customers?

1 A. Yes.

2 Q. And would you agree that there would be no
3 way to determine what the components of the grand
4 total 344,094 consists of based upon this service
5 request review?

6 A. Based upon the information provided on that
7 particular page, no.

8 MR. FLYNN: I believe Mr. Adams has been up
9 there about an hour and a half, and I have a
10 headache. I wonder if now would be a good time for
11 three or four minutes or -- I don't want to interrupt
12 you if you are almost finished.

13 MS. VON QUALEN: I wouldn't mind a break.

14 JUDGE YODER: We will take about five minutes.

15 (Whereupon the hearing was in a
16 short recess.)

17 JUDGE YODER: Back on the record then.

18 MR. RICH: Thank you, Your Honor. On behalf of
19 Constellation NewEnergy Gas Division, I would like to
20 move into evidence Constellation -- CNE-Gas Exhibit
21 Numbers 1.0 to which are attached Exhibits Numbers
22 1.1, 1.2, 1.3, 1.4, 1.5 and 1.6 and that is the

1 direct testimony of James R. Germain and Lisa A.
2 Rozumialski on behalf of Constellation NewEnergy Gas
3 Division.

4 And also Exhibit Number CNE-gas
5 Exhibit 2.0 which is the rebuttal testimony of James
6 R. Germain and Lisa A. Rozumialski on behalf of
7 Constellation NewEnergy Gas Division. These have
8 been filed on e-Docket.

9 In addition, today Constellation
10 NewEnergy Gas Division filed on e-Docket the
11 affidavits of James R. Germain which is CNE-Gas
12 Exhibit 3.0 -- I am sorry, 4.0, and Lisa A.
13 Rozumialski which is CNE-Gas Exhibit 3.0, attesting
14 to the truth of these prepared testimonies.

15 At this point I would like to move
16 them into the evidence.

17 MR. FITZHENRY: No objection.

18 JUDGE YODER: Anyone else have any objection to
19 the admission of these exhibits?

20 MR. RICH: In addition, Your Honor,
21 Constellation has agreed with counsel for Ameren that
22 Ameren will be producing three cross examination

1 exhibits which consist of three data responses by
2 Ameren's witness to CNE-Gas's data requests. He will
3 do that at a later time. We have an understanding
4 and we have no objection to that.

5 And then finally, Your Honor, CNE-Gas
6 would have no questions for Ameren's witness Mr.
7 Glaeser or for Staff's witness Mr. Sackett. So we
8 will have no further questions for any witnesses, and
9 thank you very much.

10 JUDGE YODER: All right. Without objection
11 Constellation Exhibit 1.0, along with Exhibits 1.1 to
12 1.6, Constellation Exhibit 2.0, 3.0 and 4.0 will be
13 admitted into evidence in this docket.

14 (Whereupon CNE-Gas Exhibits 1.0,
15 1.1, 1.2, 1.3, 1.4, 1.5, 1.6,
16 2.0, 3.0 and 4.0 were admitted
17 into evidence.)

18 JUDGE YODER: Kroger?

19 MR. BOEHM: Thank you, Your Honor. Kroger
20 moves the admission of the direct testimony of Kevin
21 Higgins. It is marked as Kroger Exhibit 1.0.
22 Attached to his exhibit is an attachment marked as

1 Exhibit 1.1. These were filed on e-Docket on March
2 14, 2008 -- I am sorry, May 14, 2008.

3 I would also move for the admission of
4 the amended rebuttal testimony of Kevin Higgins
5 marked as Kroger Exhibit 2.0 filed on e-Docket on May
6 14, 2008. I'm sorry, I got the first -- the direct
7 testimony was filed on March 14, 2008.

8 Additionally, I will be filing the
9 affidavit of Kevin Higgins tomorrow or shortly
10 thereafter and that will be marked Kroger Exhibit
11 1.2. Thank you.

12 JUDGE YODER: Any objection to the admission of
13 those Kroger exhibits?

14 MR. FITZHENRY: None.

15 JUDGE YODER: All right. Hearing none, then
16 Kroger Exhibit 1.0, the direct testimony of
17 Mr. Higgins, with the attached exhibit, Exhibit 2.0
18 and then the late-filed affidavit will be admitted
19 into evidence then in this docket.

20 (Whereupon Kroger Exhibits 1.0,
21 1.2 and 2.0 were admitted into
22 evidence.)

1 MR. COFFMAN: Your Honor, may I offer a couple
2 exhibits for AARP at this time?

3 JUDGE YODER: Are they affidavits?

4 MR. COFFMAN: Yes, sir, they are affidavits.

5 JUDGE YODER: Go ahead.

6 MR. COFFMAN: I could do it later, but I will
7 do it now if it is fine.

8 I have two prepared testimonies of
9 AARP witness Ralph C. Smith. The prepared direct
10 testimony is AARP Exhibit 1.0 and the prefiled
11 prepared rebuttal testimony of Ralph C. Smith is
12 Exhibit 2.0 and attached to that rebuttal is two
13 schedules, Exhibit 2.1 and Exhibit 2.2. Both of
14 these prepared testimonies had the affidavit attached
15 to them and were already filed on March 14 and May
16 14, respectively, on e-Docket. And I would offer
17 those into the record.

18 JUDGE YODER: Any objections?

19 MR. FITZHENRY: No objection.

20 JUDGE YODER: Any objection from anyone else?

21 All right. Then AARP Exhibit 1.0 and 2.0 will be
22 admitted into evidence then in this docket along with

1 their accompanying exhibits.

2 (Whereupon AARP Exhibits 1.0 and
3 2.0 were admitted into
4 evidence.)

5 JUDGE YODER: Anyone else? All right. Ms. Von
6 Qualen, I hope you didn't lose your train of thought,
7 but you may re-commence.

8 CROSS EXAMINATION (Continued)

9 By MS. VON QUALEN:

10 Q. Mr. Adams, would you turn to page 122 of
11 your Appendix 6?

12 A. All right.

13 Q. Do you see that that project name indicates
14 the service request pertains to senior vice president
15 - customer service?

16 A. Yes.

17 Q. The description indicates that these
18 services are provided for AmerenUE and AmerenCIPS,
19 correct?

20 A. The descriptions are, yes.

21 Q. Yet CILCO was allocated 12.9 percent of the
22 costs and IP was allocated 31.3 percent of the costs,

1 do you see that?

2 A. Yes.

3 Q. But you found this to be reasonable to

4 allocate a share of these costs for services which

5 were provided for AmerenUE and AmerenCIPS,

6 AmerenCILCO and AmerenIP?

7 A. This is similar to one of them I discussed

8 earlier where the description hasn't been changed

9 since the acquisition of CILCO and IP.

10 Q. So the description isn't correct?

11 A. Correct.

12 Q. Would you turn to page 32? Do you see the

13 project name is Labor/HR Services for Energy Delivery

14 - Illinois? Do you see that?

15 A. Yes.

16 Q. Would that indicate that that was for

17 customers or for employees?

18 A. Can you repeat that?

19 Q. Would that title, would that project name,

20 indicate that the costs were incurred for customers

21 or for employees?

22 A. It's labor strategy work for each of the

1 Ameren Illinois utilities.

2 Q. So that would pertain to employees?

3 A. Yes.

4 Q. The allocation factor and description
5 indicate that it is allocated based on the number of
6 customers, is that correct?

7 A. Yes.

8 Q. Can you explain why this service request
9 would be allocated based on the number of customers
10 rather than the number of employees?

11 A. Employees may have been a better allocator
12 for that particular one.

13 Q. Would you turn to page 85? Do you see that
14 the project name indicates that the service request
15 pertains to EE/Non-Technical-Administration
16 -Allocator?

17 A. Yes.

18 Q. And the description states, "This SR is for
19 non-technical administrative work of a general
20 miscellaneous nature which does not benefit any one
21 particular Ameren affiliate. The work covered by
22 this SR includes general meetings, community

1 relations, time reporting, general training and staff
2 development, industry committee work and general
3 productivity related work. Do you see that?

4 A. Yes.

5 Q. Looking at this SR review can you explain
6 why none of these costs were allocated to Ameren
7 generating, Ameren Energy Generating?

8 A. Because the work is primarily T&D-related
9 electrical engineering work.

10 Q. Do you see that in the description?

11 A. It is not in the description.

12 Q. So that anyone reviewing this service
13 request review would not be able to know that, is
14 that correct?

15 A. That's true.

16 Q. Now if you will turn again to the first
17 page of the 197 page appendix, we have already spent
18 a little bit of time on this page. Do you see the
19 project name is meant for Ameren Services employees?

20 A. Yes.

21 Q. Do you see any discussion on this page or
22 anywhere else in the record of the facilities with

1 which these costs are associated?

2 A. I can only speak to this report. I can't
3 speak to anywhere in the record. It is not listed on
4 that page no.

5 Q. And it is not listed in the report, is that
6 correct?

7 A. That's true.

8 Q. Have you identified on this page or in the
9 record or in the report how many facilities are
10 associated with this service request?

11 A. No.

12 Q. Have you identified on this page or in this
13 report the amount of costs associated with each of
14 the facilities?

15 A. I think we discussed that earlier. No.

16 Q. Would you agree that it is possible that
17 these AMS employees shared facilities with other AMS
18 employees?

19 A. I don't understand your question.

20 Q. Would you agree that it is possible that
21 the AMS employees who work on AIU services share
22 facilities with other AMS employees?

1 A. You just repeated it. I still don't
2 understand the question.

3 Q. Is it possible that the AMS employees who
4 work for the Ameren Illinois utilities have the same
5 headquarters as other AMS employees?

6 A. Would there be other AMS employees in the
7 same facility?

8 Q. Yes.

9 A. Yes, that work for the Ameren Illinois
10 utilities, yes.

11 Q. But would there be AMS employees in the
12 same facility who do not work for the Ameren Illinois
13 utilities?

14 A. No, not in this service request.

15 Q. And how can you tell that by looking at
16 this service request?

17 A. Again, this is based upon discussions with
18 the individuals who are responsible for the different
19 service requests. I have not made out every single
20 fact associated with every service request.

21 Q. Looking at page 2, do you believe that the
22 reasonableness of the grand total amount of

1 21,211,856 can be determined from the service request
2 review on that page?

3 A. Yes, because it is just an indirect
4 corporate allocation based upon all AMS charges to
5 all the different affiliates. So it is appropriate
6 to spread the rent accordingly. This is primarily
7 for work of AMS employees in the general office.

8 Q. So you think the allocation is reasonable?

9 A. And the dollars that go with it, yes.

10 Q. Well, how would one know that the dollars
11 that went with it are reasonable?

12 A. I am going to get back to the benchmark
13 work that we discussed earlier that shows how A&G
14 costs in total compare very favorably for the Ameren
15 Illinois utilities to the other utilities, and the
16 rent would be included in that.

17 Q. Have you provided any other evidence
18 besides the benchmarking?

19 A. For the rent, no. I would add, however,
20 Staff did not take any exception to the dollars. It
21 is just the application methodology.

22 MS. VON QUALEN: I am going to ask that that

1 last remark be stricken.

2 MR. FLYNN: No response.

3 JUDGE YODER: Stricken. It is not responsive.

4 BY MS. VON QUALEN:

5 Q. Would you turn to page 6? This SR review
6 identifies a grand total of 8,329,835, is that
7 correct?

8 A. Yes.

9 Q. The description for the service request
10 states, "This SR captures the costs associated with
11 planning and supporting various activities completed
12 in support of AMS in target corporations (e.g.
13 planning and support, office training and
14 conferences), correct?

15 A. That's correct.

16 Q. Is there anywhere on this page or in this
17 report where these various activities are identified?

18 A. The activities performed are not identified
19 on that page, yes.

20 Q. Or in your report?

21 A. That is correct.

22 Q. Is there anywhere on this page or in the

1 report where the target corporations are identified?

2 A. What do you mean by target corporations?

3 Q. Well, I don't know. I am referring to the
4 words "target corporations" in the description.

5 A. As used there that's the various Ameren
6 subsidiaries. So when they use an indirect function
7 based on information technology to spread the costs,
8 it is security and planning work that's done, and
9 they spread the costs according to how all the
10 information technology dollars are allocated to
11 various Ameren subsidiaries.

12 Q. And is there somewhere that would tell me
13 that on this page 6?

14 A. Everything I just said, I think, is on the
15 page. The allocator is there. Planning is there, I
16 mean, RNC planning.

17 Q. But there is no definition of what is
18 referred to as target corporations, isn't that true?

19 A. It is not defined, correct.

20 Q. Now, if you would turn to page 13, the
21 project name is EDTS - Ongoing Support Services,
22 Ameren IP, correct?

1 A. Yes.

2 Q. And would you agree that the description
3 states, "This SR is for various services provided by
4 the EDTS function which are for the benefit of
5 AmerenIP"?

6 A. Yes.

7 Q. Do you see anywhere on this page or in your
8 report a description of what EDTS stands for?

9 A. Could you repeat the question? Sorry.

10 Q. Do you see on this page or in the report an
11 explanation of what EDTS stands for?

12 A. I thought it was, but I can't find it.

13 Q. So the answer is no?

14 A. The answer is I can't find it right now. I
15 thought it was. Not to my knowledge. I can't find
16 it right now.

17 Q. Would you turn to page 42? The project
18 name indicates that this is for Lodestar,
19 L-O-D-E-S-T-A-R, support?

20 A. Okay.

21 Q. Do you see on this service request review
22 or elsewhere in your report the purpose of the

1 Lodestar system?

2 A. No.

3 Q. Would you turn to page 80? Do you see that
4 this service request pertains to Allocated
5 Environmental Support Services?

6 A. Yes.

7 Q. Do you see the difference in allocation for
8 the CIPS which is 13 percent and GEN which is given
9 1.9 percent?

10 A. Yes.

11 Q. Do you have any explanation of why CIPS
12 would be allocated 13 percent for this cost and GEN,
13 which is the generating affiliate, would be only
14 allocated 1.9 percent?

15 A. Because that's the percentage of the
16 electric sales for the two entities.

17 Q. Why is that reasonable?

18 A. Based on the nature of the work performed,
19 electric sales is determined to be the appropriate
20 allocation methodology to allocate the costs.

21 Q. Who made that determination?

22 A. Ameren Services and the various companies

1 that received a portion of the charges.

2 Q. And when you reviewed it, did you have any
3 questions about it?

4 A. I don't recall if I asked any questions
5 about this one or not.

6 Q. Would you turn to page 127? Are you there?
7 Would you agree that this service request is related
8 to security?

9 A. Yes.

10 Q. And that it allocates about 52 percent of
11 the cost to the Ameren Illinois utilities?

12 A. Yes.

13 Q. Now, if you can, keep a finger in this page
14 and look at page 71. Would you agree that this
15 service request also is related to security?

16 A. Yes.

17 Q. And would you agree that it allocates about
18 34 percent of the cost to the AmerenUE employees?

19 A. Yes.

20 Q. Do you have any explanation of why the
21 Ameren Illinois utilities should receive a much
22 larger share of the security costs for the service

1 request on page 127 than the service request on page
2 71?

3 A. Because it uses an indirect functional
4 allocator and that would reflect the total dollars
5 allocated by the security function to the Ameren
6 Illinois utilities, not just this particular one. It
7 is not the same allocation basis that's used.

8 Q. But why would a different allocation basis
9 be used?

10 A. Because if you look throughout the report,
11 most of the admin support and office expense type
12 services are all based on indirect allocators that
13 reflect an allocation of the costs based upon what
14 those -- the total costs for that function, how it
15 was allocated to the various Ameren subsidiaries.
16 And that's what page 127 is. Page 71 was specific
17 work that was done and allocated based upon the
18 number of employees. So it is a difference in how
19 the -- what allocation methodology was selected.

20 Q. Is the work that is performed for the two
21 different service requests any different?

22 A. Sure. One is designing, testing and

1 training and designing security policies and
2 procedures and the other one is admin support.

3 Q. Would you turn to page 129? This
4 description states, "The services provided under this
5 SR are to develop, maintain, support and enhance
6 application systems not specifically covered by other
7 SRs. Activities include designing, coding, testing
8 and implementing programs for these systems." Do you
9 see that?

10 A. Yes.

11 Q. Can you explain why these costs would
12 pertain only to the delivery companies?

13 A. To the type -- ED is energy delivered or
14 energy delivery systems that have performed work done
15 by IP for energy delivery. That's also the Lead RNC,
16 development for energy delivery.

17 Q. So to know that you would have to know what
18 ED stood for?

19 A. No, ma'am, look to the right Lead RNC.

20 MS. VON QUALEN: All right. You got me. I am
21 going to end on that one. Thank you very much for
22 your cooperation.

1 WITNESS ADAMS: You are welcome.

2 JUDGE YODER: The Attorney General, I believe,
3 had some cross reserved for Mr. Adams.

4 MR. MOSSOS: No, that's a mistake. We waive
5 that.

6 JUDGE YODER: My mistake or yours?

7 Do you want to consult with Mr. Adams,
8 Mr. Flynn?

9 MR. FLYNN: No, I only have a few questions to
10 ask Mr. Adams.

11 REDIRECT EXAMINATION

12 BY MR. FLYNN:

13 Q. Mr. Adams, among other things Ms. Von
14 Qualen asked you about some of those SR reports and
15 why you used in some -- why you -- why an electric
16 and gas allocator was used for a service that was
17 targeted either at electric or gas. Do you recall
18 those exchanges with her?

19 A. Yes.

20 Q. And I believe they involved in some
21 situations costs that were being divided only among
22 the Illinois utilities?

1 A. Correct.

2 Q. Would you like to comment further on those
3 instances?

4 A. Yes. If you look at the -- first of all, I
5 looked at these different service requests in their
6 totality, looked at the nature of the services, and
7 based upon the experience that I have with other
8 companies, the services looked like services that the
9 different delivery companies require, not only the
10 Ameren Illinois utilities but other energy service
11 companies as well. So the question becomes who
12 provides the service, whether it is the Ameren
13 Illinois utilities or AMS. And in this case these
14 are AMS services.

15 But more specifically to your
16 question, looking at the allocators which are laid
17 out in Appendix 5 of the report, it lists the
18 different allocation methodologies and the percentage
19 that's allocated to each of the target companies, and
20 the target companies are listed on the top of the
21 page.

22 If you begin to look at the different

1 allocation methodologies that we discussed when the
2 questions were posed to me of why an electric-only --
3 apparently an electric-only description would use an
4 electric and gas description. If you look at the
5 CIPS, CILCO and IP columns for that, in that
6 particular exhibit, the percentages allocated to each
7 of the companies for the Ameren Illinois utilities is
8 not materially different whether it is just electric
9 or electric and gas.

10 Q. Ms. Von Qualen, staying with those SR
11 reports, also asked you some questions with respect
12 to several of them, how someone reviewing your report
13 could tell whether the grand totals, in other words
14 the amount being allocated, were themselves
15 reasonable. Do you recall those exchanges?

16 A. Yes.

17 Q. Is there information in your report about
18 the reasonableness of the A&G costs being allocated?

19 A. Yes. As I already discussed, the
20 benchmarking that we performed looked at a number of
21 different benchmarkings, and that's really what I
22 thought the Commission had directed the companies to

1 perform in their order, was to look at the
2 reasonableness of the costs.

3 The benchmarking compared the peak
4 Ameren Illinois utilities both on a gas, electric and
5 combined basis to all other gas companies that file
6 annual reports. And each of the Ameren Illinois
7 utilities individually, as well as collectively,
8 compared very well to the other energy companies.

9 We also took it a step further and
10 looked at where we could get information and looked
11 at service costs on a per service basis compared to
12 other utilities and non-utilities, and again the
13 Ameren Illinois utilities costs compared very
14 favorably to the benchmark data that we had access
15 to.

16 Q. I believe that in response to several
17 questions from Ms. Von Qualen you indicated that you
18 spoke to individuals within the Ameren family about
19 some of the services being provided under particular
20 SRs. Could you explain that?

21 A. Yes, we conducted interviews. After we had
22 done some analysis of the data, we went to a number

1 of individuals within Ameren Services that were
2 responsible for the particular service request and
3 conducted interviews with them regarding the nature
4 of the services that they provided and got into the
5 details of the costs and the allocation methodology,
6 who determined the service was necessary, whether it
7 was the Ameren Illinois utilities or Ameren Services.

8 And it was within that context that we
9 reviewed the service requests and made a
10 determination as to reasonableness of the allocation
11 of the costs.

12 Q. How did you decide how much information to
13 put in your report?

14 A. In the true manner, there is never enough
15 information. We basically used the information from
16 the Company's service request system to lay out the
17 project names, the Lead RNC and the descriptions. We
18 did not modify those descriptions as they are
19 contained in the report. It was in the context of
20 all the other information that we gathered as well
21 that we made the judgment call on the reasonableness
22 of the allocations.

1 MR. FLYNN: If I could just have a minute,
2 Judge, to look back through my notes.

3 (Pause.)

4 I don't have any additional redirect.

5 JUDGE YODER: Anything else, Ms. Von Qualen?

6 MS. VON QUALEN: I have nothing further.

7 JUDGE YODER: Do you object to the admission of
8 Mr. Adams' various exhibits?

9 MS. VON QUALEN: No.

10 JUDGE YODER: Any objections?

11 MS. VON QUALEN: No.

12 JUDGE YODER: Anyone else? All right. Then
13 without objection Ameren exhibits 5.0 E and G for
14 each of CIPS, CILCO and IP, direct testimony of
15 Michael Adams, filed with accompanying Exhibits 5.1
16 through 5.15 E and 5.1 through 5.14 G, Ameren Exhibit
17 21, along with accompanying Exhibits 21.01 through
18 21.05, Ameren Exhibit 45.0, along with accompanying
19 Exhibits 45.1 through 45.5, will be admitted into
20 evidence in this docket.

21 (Whereupon AmerenCILCO 5.0E,
22 5.0G, AmerenCIPS 5.0E, 5.0G,

1 AmerenIP 5.0E, 5.0G, Ameren 21.0
2 and 45.0 were admitted into
3 evidence.)
4 (Witness excused.)
5 JUDGE YODER: Do you want to take a minute or
6 two? Judge Albers is going to come down, and I take
7 it Mr. Jones is next?
8 MR. FITZHENRY: He is.
9 JUDGE YODER: Mr. Jones, why don't you come up
10 and I will go ahead and swear you in. That seems to
11 be my job today. Mr. Jones, would you raise your
12 right hand?
13 (Whereupon the witness was duly
14 sworn by Judge Yoder.)
15 JUDGE YODER: Okay. Everyone take a couple
16 minutes til Judge Albers gets down.
17 MR. FITZHENRY: Do we want to identify his
18 testimony and exhibits or do you want to wait for
19 Judge Albers?
20 JUDGE YODER: Why don't we just wait?
21 (Whereupon the hearing was in a
22 short recess.)

1 JUDGE ALBERS: Back on the record.

2 LEONARD M. JONES

3 called as a witness on behalf of Petitioners, having
4 been first duly sworn, was examined and testified as
5 follows:

6 DIRECT EXAMINATION

7 BY MR. FITZHENRY:

8 Q. Please state your name and business address
9 for the record, Mr. Jones.

10 A. Leonard M. Jones.

11 Q. And -- I am sorry.

12 A. Business address is One Ameren Plaza, 1901
13 Chouteau Avenue, St. Louis, Missouri 63103.

14 Q. And, Mr. Jones, have you caused to be
15 prepared for submission in this proceeding the
16 revised direct testimony of Leonard M. Jones and
17 identified for the record as AmerenCILCO Exhibit
18 12.0E Revised?

19 A. Yes.

20 Q. And did you have attached to that testimony
21 Ameren Exhibit 12.1E through 12.6E?

22 A. Yes.

1 Q. And did it also include Ameren Exhibit
2 12.7E Revised?

3 A. Yes.

4 Q. And did it also include Ameren Exhibit
5 12.8E through 12.11E?

6 A. Yes.

7 Q. And did you also have prepared for
8 submission in this docket your revised direct
9 testimony titled AmerenCIPS Exhibit 12.0E Revised?

10 A. Yes.

11 Q. And similarly did it include the same
12 exhibits that were identified with respect to the
13 CILCO direct testimony?

14 A. Yes.

15 Q. And the exhibits that I identified as
16 having been revised for CILCO, were they the same
17 exhibits that were revised for CIPS?

18 A. Yes.

19 Q. And did you also submit the revised direct
20 testimony titled AmerenIP Exhibit 12.0E Revised?

21 A. Yes.

22 Q. And did it too include Ameren Exhibits

1 12.1E through 12.11E, including the same CIPS and
2 CILCO exhibits that were revised?

3 A. Yes.

4 Q. Did you also prepare your revised rebuttal
5 testimony identified for the record as Ameren Exhibit
6 26.0 Revised?

7 A. Yes.

8 Q. Did it include Ameren Exhibit 26.1 and
9 26.2?

10 A. Yes.

11 Q. And finally, Mr. Jones, did you prepare for
12 submission in this docket the revised surrebuttal
13 testimony of Leonard M. Jones identified for the
14 record as Ameren Exhibit 50.0 Revised?

15 A. Yes.

16 Q. Again, beyond the corrections that were
17 made to the exhibits indicating that they were
18 revised, do you have any other corrections or
19 revisions to make to any of these testimonies or to
20 their attachments?

21 A. No.

22 Q. If I were to ask you the questions set

1 forth in your testimony, would you give the answers
2 set forth therein?

3 A. Yes.

4 MR. FITZHENRY: Thank you. At this time, Your
5 Honor, we move for the admission of the said exhibits
6 and tender Mr. Jones for cross examination.

7 JUDGE ALBERS: Thank you. We will take that up
8 following cross. I would like to begin with the
9 question for Mr. Jones. Mr. Balough, you are first
10 to make a move.

11 CROSS EXAMINATION

12 BY MR. BALOUGH:

13 Q. Good afternoon, Mr. Jones.

14 A. Good afternoon.

15 Q. My name is Richard Balough and I represent
16 several cities and one town. And I want to talk to
17 you a little bit about the issue that we raised in
18 this case and that has to do with fixture charges for
19 street lights, okay.

20 Now, just so that we're clear as to
21 what we are talking about, when we are talking about
22 the fixture charge for street lights, we are talking

1 about the fixtures that are on top of a pole that
2 provide street lighting, is that correct?

3 A. Correct.

4 Q. And with that, that does not include, for
5 example, fixtures that are owned by the
6 municipalities, is that correct?

7 A. That's correct.

8 Q. In other words, say for example, within a
9 city there can be some fixtures as we refer to them
10 as street lights. Some would be owned by Ameren and
11 some are actually owned by the cities, is that
12 correct?

13 A. That is correct.

14 Q. And when we talk about the fixture costs,
15 we are talking, for example, about the cost of the
16 bulbs for those facilities?

17 A. It is included in the fixture price, yes.

18 Q. And you are talking about, for example,
19 going up in the cost of operating and maintaining
20 that bulb, that is, changing the fixtures?

21 A. Correct.

22 Q. But we are not talking about, for example,

1 the energy cost associated with the lighting of that
2 fixture, is that correct?

3 A. That's correct.

4 Q. Now, in this case there are separate
5 fixture charges, for example, for IP, CIPS and CILCO,
6 is that correct?

7 A. Yes.

8 Q. And the municipalities that I represent all
9 take service from AmerenIP. Do you understand that?

10 A. Yes.

11 Q. And, for example, just so I understand the
12 difference in the fixture charges, for a hundred watt
13 sodium vapor -- and that's a type of fixture, is that
14 correct?

15 A. Yes, it is.

16 Q. And, for example, for CIPS the monthly
17 charge per fixture would be \$3.12, is that correct,
18 under the current rate?

19 A. That's correct.

20 Q. And for CILCO that would be -- that same
21 charge is \$7.13 cents, is that correct?

22 A. Yes.

1 Q. And for IP that charge is \$7.59, is that
2 correct?

3 A. Yes.

4 Q. And as I understand, the proposal in this
5 case is that any increase that is in this case for
6 AmerenIP is going to be passed on as a, rather than
7 -- excuse me. Rather than using a cost of service
8 study it is going to be an across the board increase,
9 is that correct?

10 A. That is correct.

11 Q. And the current proposal for the across the
12 board increase for AmerenIP is around a little over
13 41 percent, is that correct?

14 A. It is five on direct. It is a little bit
15 less now in our rebuttal case.

16 Q. Relatively speaking we are close?

17 A. Relatively speaking we are close.

18 Q. So, for example, for IP a \$7.59 charge
19 would go to \$11.08, is that correct, roughly
20 speaking?

21 A. Roughly speaking.

22 Q. And for the AmerenCIPS and AmerenCILCO

1 utilities, the increases for those rate cases are
2 less than the 41 percent, is that correct?

3 A. That's correct.

4 Q. Now, would you agree with me that the -- I
5 mean, there is a significant difference in the cost
6 of the fixture charges for CIPS, CILCO and IP as
7 proposed in this docket, in these dockets, is that
8 correct?

9 A. Yes.

10 Q. And am I correct that the difference in
11 that is driven from historical cost of services that
12 were run for the various utilities, is that correct?

13 A. That's correct.

14 Q. And the Company is not contending in this
15 case, for example, that on a going forward basis that
16 the cost to maintain the fixtures for CIPS versus
17 CILCO versus IP is necessarily reflected in the
18 difference that the rates are showing, is that
19 correct?

20 Let me rephrase that. I see you are
21 confused. To overly simplify it, as I understand,
22 under the proposed rate the monthly fixture charge

1 would be about \$3.72 and the proposed monthly charge
2 per fixture for AmerenIP would be \$11.08. It is not
3 your contention that, for example, to change a light
4 bulb, so to speak, for IP is \$11.08 and it only costs
5 \$3.72 for CIPS, is that correct?

6 A. Are you addressing the incremental costs?

7 Q. On a going -- incremental costs on a going
8 forward basis. If you were to send a crew out there
9 today -- let me finish the question. If you were to
10 send a crew out there today, whether it be in the
11 CIPS territory or the CILCO territory or the IP
12 territory, would you agree with me that the costs,
13 for example, to change one of those fixtures would be
14 approximately the same?

15 A. They would be substantially similar.

16 Q. Certainly a lot more similar than the
17 difference between \$3.72 and \$11.08?

18 A. That is likely.

19 Q. Now, in this case am I correct also that
20 the Company has conducted embedded cost of service
21 studies in this case?

22 A. Yes.

1 Q. But the cost has elected not to use the
2 embedded cost of service study?

3 A. Correct.

4 Q. And am I correct that under the embedded
5 cost of service study that was submitted in this case
6 that the fixture charge for AmerenIP would recover
7 more than the system average?

8 A. I am sorry, could you state that again,
9 please?

10 Q. Sure. Let me try it again. Am I correct
11 that under the embedded cost of service study that is
12 in this case, that -- let me get the number for you.
13 I think it is in your testimony. Using the cost of
14 service study, the return to AmerenIP is about
15 2 point -- I believe it is 2.38 for the fixture
16 charge for AmerenIP?

17 A. The return under present rates in the cost
18 of service study is 2.75 percent.

19 Q. And essentially can you tell -- essentially
20 that means that the return -- that the utility --

21 A. I am sorry, the return for the lighting
22 class is 6.54 percent. The overall average for

1 AmerenIP is 2.75 percent.

2 Q. Okay. So the class return is in excess of
3 what the system return is?

4 A. Correct.

5 Q. And if we were to, as is proposed in this
6 case, do an across the board increase, it is likely
7 that that disparity would at least remain, if not
8 increase, is that correct?

9 A. Yes.

10 Q. I want to have you, if you could for a
11 moment, refer to your testimony. I believe it is
12 your surrebuttal, Exhibit 50 at page 21.

13 MR. FITZHENRY: What page?

14 MR. BALOUGH: 21.

15 MR. FITZHENRY: Thank you.

16 BY MR. BALOUGH:

17 Q. Are you with me?

18 A. Yes.

19 Q. You have on there two tables. The first
20 one says average cost per month per fixture and then
21 it is by some of the municipalities that I represent,
22 is that correct?

1 A. Yes.

2 Q. And essentially there are, as I understand
3 it, three different types of fixtures and what you
4 are doing is just averaging, for example, for
5 Champaign whether they have -- the number of fixtures
6 they have in the various classes, the various sizes,
7 and then coming up with an average rate, is that
8 correct?

9 A. That's correct.

10 Q. I want to focus a moment then on the second
11 table that you have on that page. And you did a per
12 capita average cost per month. You know, if I am
13 understanding that correctly, you are taking the
14 amount of money received by AmerenIP each month for
15 the fixture charges that are made to each of the
16 municipalities and dividing that by the number of
17 citizens in the municipality?

18 A. Yes.

19 Q. I am sort of at a loss as to figure out
20 what that shows from a ratemaking perspective.

21 A. Well, it shows the average impact on the
22 citizens within that community if they were to -- if

1 the town were to pass on that cost to the citizens of
2 that town.

3 Q. On an individual basis?

4 A. On an individual basis.

5 Q. And in your testimony you also discuss the
6 fact that AmerenIP pays franchise fees to the various
7 municipalities, is that correct?

8 A. Yes.

9 Q. Is it correct that AmerenIP, actually
10 probably all of the Ameren companies, pay some type
11 of franchise fee to most, if not all, of the
12 municipalities in which they operate?

13 A. I believe that statement is true for
14 AmerenIP and likely true for CILCO. I do not know if
15 that is true for CIPS.

16 Q. Okay. Well, let's just focus on AmerenIP
17 for a moment. The franchise fee is a payment that
18 the utility pays to the municipality for the use of
19 the streets and right-of-ways located in that
20 municipality, is that fair?

21 A. That's fair.

22 Q. And such a charge by the municipality,

1 there are various ways to collect that from the
2 utility, are there not?

3 A. Yes.

4 Q. For example, some utilities can charge --
5 can provide what I think has been termed in some
6 franchise agreements, as free electricity to the
7 municipalities, for example, for their operations in
8 their city hall?

9 A. Yes.

10 Q. And with some payments the franchise fees
11 can be just a dollar amount to the utility based upon
12 the revenues collected by the utility in that
13 municipality, is that correct?

14 A. Yes.

15 Q. And for some of the municipalities in this
16 case that franchise fee is collected by the utility
17 reimbursing the municipality for one half of the cost
18 of street lighting, is that correct?

19 A. Yes, for the IP cities and town, that
20 question, that is true.

21 Q. And as I understand, as AmerenIP
22 renegotiates these franchises in the future, that it

1 is going to go to a system of just paying a dollar
2 amount based on whatever the calculation would be, is
3 that correct?

4 A. That's my understanding.

5 Q. So when you talk about the fact that when
6 we are looking at the rates charged the
7 municipalities, and we are talking about the
8 AmerenIP, when you say, well, they are only really
9 paying one half of that charge, that's technically
10 not correct, is it?

11 A. Those communities are paying one half of
12 the lighting bill which includes the cost of
13 fixtures, the delivery charge and energy.

14 Q. Let me phrase it differently. Say, for
15 example, when you send out a bill to the City of
16 Champaign for fixtures under these various rates, is
17 the bill one half the amount that you would normally
18 bill?

19 A. I believe so.

20 Q. And the half that you don't collect, you
21 collect that then through the franchise charge that
22 you can charge as a line item on the customer's bill?

1 A. No. That item shows up as a rate case
2 expense, as a franchise rate case expense.

3 Q. So in essence you are collecting that
4 franchise -- you are collecting that remaining, what
5 we would call, one half from the ratepayers?

6 A. Yes.

7 Q. Am I correct that you have -- you have read
8 the testimony filed by the Cities' witness
9 Ms. Hughes, have you not?

10 A. Yes.

11 Q. And do you disagree with her calculation of
12 what the charge would be for fixtures if the embedded
13 cost of service were to be used?

14 A. When I reviewed Ms. Hughes' testimony, I
15 didn't have any issues with her calculation. So, no.

16 Q. So am I correct that the sole reason for
17 the opposition to passing -- to charging for the
18 street lights what the embedded cost of service study
19 shows is, is the fact that all the other rates are
20 going to be passed on using an across the board
21 increase and, therefore, the Company believes it
22 would be unfair to specifically charge the

1 municipalities only the rate that's shown through the
2 cost of service?

3 A. Yes.

4 MR. BALOUGH: I have no other questions.

5 JUDGE ALBERS: Thank you, Mr. Balough. Who
6 would like to go next?

7 CROSS EXAMINATION

8 BY MR. BOEHM:

9 Q. Good afternoon, Mr. Jones.

10 A. Good afternoon.

11 Q. My name is Kurt Boehm. I represent the
12 Kroger Company. I would like to talk to you about
13 the distribution rates for DS-3 and DS-4 customers.
14 How is a customer classified as either a DS-3 or DS-4
15 customer? Is it by billing demand?

16 A. It is by their billing demand, yes.

17 Q. Okay. So a DS-3 customer has a billing
18 demand between 150 and a thousand kW and the DS-4 is
19 over a thousand kW, is that correct?

20 A. DS-4 is one thousand or greater.

21 Q. Now, in your exhibit Ameren Exhibit 12.3E,
22 on pages 1 through 3 of that exhibit, you can see

1 various charges for DS-3 and DS-4 customers.

2 MR. FITZHENRY: 12.3?

3 MR. BOEHM: 12.3 E. That exhibit has a lot of
4 different numbers on it that I am not concerned about
5 so I have a handout.

6 May I approach the witness?

7 JUDGE ALBERS: Yes.

8 (Whereupon Kroger Cross Exhibit
9 1.0 was marked for purposes of
10 identification as of this date.)

11 BY MR. BOEHM:

12 Q. Have you had a chance to look at this?

13 A. Yes.

14 Q. This is the -- I just took this from the
15 table in Mr. Higgins' testimony on page -- page 5.
16 This shows the various distribution delivery charges
17 for all three companies for DS-3 and DS-4 customers.
18 And as we can see here, the DS-3 charges are greater
19 in every case, is that correct?

20 A. Yes.

21 Q. And in some instances they are almost
22 double. For example, for primary service voltage for

1 AmerenCILCO it is 5.1 for DS-3 and 2.7 for DS-4, is
2 that correct?

3 A. Yes, I see that.

4 Q. You submitted testimony in the last
5 delivery services rate case for Ameren, is that
6 correct?

7 A. Yes.

8 Q. And in that case I have an excerpt of your
9 testimony. I don't know if this needs to be marked
10 as an exhibit or not, but I would just like to show
11 Mr. Jones this.

12 JUDGE ALBERS: Okay, go ahead.

13 MR. BOEHM: I apologize for the small print.

14 Q. I would like to refer you to page -- or on
15 line 359, you write, "For purposes of developing
16 voltage differentiated demand base distribution
17 delivery charges, the demand-related cost for DS-3
18 and DS-4 are combined and divide by the combined
19 voltage differentiated demands. Combining costs and
20 demands by voltage recognizes that conceptually
21 providing a kW of service to customers at a given
22 voltage level costs the same whether the customer

1 requires 150 kW or 2,000 kW." Do you see that?

2 A. Yes.

3 Q. Would another way of saying that be that
4 for any given voltage level a DS-3 and DS-4 customer
5 costs the same to serve regardless of billing demand?

6 A. Well, the billing demand starts to get into
7 the revenue side of the equation which this excerpt
8 does not address. Conceptually on a cost basis the
9 two -- the cost for serving a kW of demand would be
10 approximately the same. But it doesn't address the
11 revenue side of the equation.

12 Q. Okay. I would like to look at this another
13 way. If you assume that an AmerenCILCO customer had
14 a billing demand of a thousand kW and this customer
15 would qualify for the DS-4 rate, is that correct?

16 A. Yes.

17 Q. Let's say the customer successfully
18 implements energy efficiency measures and reduces his
19 demand from a thousand kW to 600 kW. Would his total
20 distribution delivery costs go up even though he
21 reduced his demand by 400 kW?

22 A. Yes.

1 Q. You are aware that the Commission addressed
2 this issue in its final order in the last case, is
3 that correct?

4 A. Yes.

5 Q. And you reference this in your surrebuttal
6 testimony on page 23 -- I am sorry, let me go back a
7 second. I guess I wasn't clear. On page 175 of the
8 final order, this is referenced in Mr. Higgins'
9 testimony on page 7. I will just summarize. In
10 discussing this issue the Commission wrote, "Ameren
11 should address these questions in its next delivery
12 service rate case filing." And you talk about that
13 reference on page 23.

14 And essentially your point is that --
15 I will just read. You refer to page 156 of that
16 order and state, "When Ameren files its next delivery
17 service" -- this is the Commission talking. "When
18 Ameren files its next delivery services rate case,
19 assuming that filing is in 2009 or later, it should
20 provide sufficient information for the Commission to
21 either retain the current DS-3 classification or
22 adopt the DS-3 classification with the sub-classes

1 proposed by Wal-Mart."

2 Now, isn't the Commission referring to
3 a completely second issue in the reference that you
4 quote? Aren't they referring to the DS-3
5 subclassification issue raised by WalMart and not the
6 issue raised by Kroger in the last case?

7 A. I don't believe so. I believe they are
8 related. Because in the Commission order on page 175
9 it references the section on page 156.

10 Q. And I understand that we are getting into
11 sort of the legal meaning of the Commission's order.
12 But aren't they referencing simply that Ameren should
13 address this issue in the next rate case like they
14 are ordering for the WalMart issue?

15 MR. FITZHENRY: I do think we are getting
16 closer and closer to asking Mr. Jones for a legal
17 conclusion.

18 MR. BOEHM: I will address this on briefs.

19 MR. FITZHENRY: Thank you.

20 MR. BOEHM: That's all the questions I have.

21 MR. FITZHENRY: Thank you.

22 JUDGE ALBERS: Thank you, Mr. Boehm.

1 Mr. Robertson?

2 Oh, Mr. Boehm, did you want this

3 marked as a cross exhibit?

4 MR. BOEHM: Yes, I move that Kroger Exhibit 3.0

5 -- or would it be cross examination Exhibit 1.0?

6 JUDGE ALBERS: This is your first cross exhibit

7 today?

8 MR. BOEHM: Yes.

9 JUDGE ALBERS: Okay. Kroger Cross Exhibit 1.

10 MR. FITZHENRY: That information is in the

11 record. I don't have any objection, just to point it

12 out to the judges.

13 JUDGE ALBERS: No objection then?

14 MR. FITZHENRY: None.

15 CROSS EXAMINATION

16 BY MR. E. ROBERTSON:

17 Q. Good afternoon, Mr. Jones.

18 A. Good afternoon.

19 Q. My name is Eric Robertson. I represent the

20 Illinois Industrial Energy Consumers. You

21 participated in Ameren's last DST case, I think we

22 have established already, is that correct?

1 A. That's correct.

2 Q. And do you recall any of the percentage
3 increases that were proposed by Ameren for the DS-4
4 classes of the Ameren utilities in those cases?

5 A. Vaguely. I am not sure where they ended
6 up. I remember --

7 Q. Do you remember what you proposed? Any of
8 them.

9 A. I remember IP proposed on the order of a
10 hundred percent. I don't remember where that ended
11 up.

12 Q. Would you be willing to accept subject to
13 check that, based on Schedule 20 to 22 in your
14 rebuttal testimony in that case, that we calculated
15 that the AmerenIP proposed percentage increase to
16 DS-4 customers served at 138 kV was about 371
17 percent?

18 A. Yes.

19 Q. 34.5 kV for about 130 percent?

20 A. I am sorry, what was that percent?

21 Q. 34.5 kV about 130 percent?

22 A. Yes.

1 Q. And 12.47, 12.4 -- 12.47 kV about 1,153
2 percent?

3 A. No, I don't accept that one.

4 Q. How about 115.3 percent? I was just
5 checking to see if you were awake.

6 A. 115 is closer. I will have to check those.

7 Q. Now, in this case you had suggested that
8 the Company's proposal for your across the board
9 increase is based on a number of concerns, including
10 concerns about the ability of customers to re-adjust
11 their budgets, is that right?

12 A. That's correct.

13 Q. And the increases that were proposed for
14 these DS-4 customers in the last case, did the
15 Company consider in determining its allocation of its
16 increase the ability of those customers to adjust
17 their budgets to meet those kinds of increases?

18 MR. FITZHENRY: Just to be clear, you mean the
19 final rate increases for DS-4, DS-3 customers?

20 MR. E. ROBERTSON: No, not the final. In the
21 proposal. These were proposed by the Company. I am
22 not representing that these were the ones that were

1 approved. These were proposed in the rebuttal
2 portion of the case.

3 MR. FITZHENRY: I don't understand the
4 question. I apologize.

5 MR. E. ROBERTSON: Well, I would like to know
6 whether or not the witness in the last case, and the
7 Company in the last case, gave any consideration to
8 whether or not customers would be able to re-adjust
9 their budgets to meet these kinds of increases in
10 that case.

11 MR. FITZHENRY: I object to relevance. It is
12 in that last case.

13 MR. E. ROBERTSON: No, the Company has
14 expressly stated in this case that it is concerned
15 about the ability of customers to re-adjust their
16 budgets. And I would like to know whether or not
17 that was a concern in the last case.

18 MR. FITZHENRY: At the time that Mr. Jones
19 filed his rebuttal testimony?

20 MR. E. ROBERTSON: Correct.

21 MR. FITZHENRY: I think Mr. Jones' rebuttal
22 testimony filed at that time speaks for the reasons

1 why he was supporting those rates.

2 MR. E. ROBERTSON: Well, that's what we are
3 trying to find out, was that one of the
4 considerations in the last case.

5 JUDGE ALBERS: Objection is overruled.

6 A. The customer's ability to pay is always a
7 concern. The voltage differentiated demand charges
8 are one component of the customer's overall total
9 bill. And the 300 percent you quoted for the 138 kV
10 demand charge is a very small charge. I think it was
11 on the order of three to four cents per kW a month
12 than at the time we filed our previous case and
13 proposed that it increase up to the value somewhere
14 near what we see today of eight cents per kW. That
15 value is, dollar-wise for a very large customer who
16 would likely be connected to a 138 kV system, would
17 be very small.

18 BY MR. E. ROBERTSON:

19 Q. In that case do you remember or would you
20 accept subject to check that, based on revenue
21 allocation or increased revenues, the increase to the
22 DS-4 class in the IP case was roughly 230 percent?

1 A. I don't remember.

2 Q. Would you accept, I misspoke, 216 percent?

3 But I would ask you to accept subject to check, and
4 my reference for you to check is IIEC 1.0 in that
5 case offered by Mr. Stephens at page 8, Table 1,
6 which summarizes the revenue percentage increases for
7 the Company from your Schedule 10.6?

8 MR. FITZHENRY: Judge, I am trying to be nice
9 about this, but I am going to have to object. We are
10 now asking Mr. Jones to accept subject to check
11 numbers in another witness's docket from two years
12 ago. I don't think that's fair.

13 MR. E. ROBERTSON: Well, but I think I have
14 explained to Mr. Jones that the table here is based
15 on his Schedule 10.6 and he can check it against that
16 schedule or he can check it against the table. I
17 don't care.

18 JUDGE ALBERS: I will allow the question.

19 A. I will assume you are reading this
20 correctly. So, yes, I will accept that subject to
21 check.

22 BY MR. E. ROBERTSON:

1 Q. All right. I refer you to your rebuttal
2 testimony, lines 100-101. Let me know when you are
3 there, Mr. Jones.

4 A. Yes.

5 Q. Now, there you talk about the decision to
6 have an across the board increase in this case, and
7 you indicate that it was made before the class cost
8 of service study analysis was completed in this case,
9 is that correct?

10 A. Yes.

11 Q. Now, so at the time of the Company's
12 decision, the Company did not know whether or to what
13 extent the across the board revenue allocation
14 approach would create cross subsidies between
15 classes, is that correct?

16 A. Yes.

17 Q. Do you agree that the across the board
18 approach will create cross subsidies, given Ameren's
19 cost of service study results?

20 A. Yes.

21 Q. And do you know whether or not the
22 subsidies will be somewhat greater if IIEC's

1 modification of the Company's cost of service study
2 is considered?

3 A. Yes, they will be.

4 Q. Now, at lines 101-103 you suggest of your
5 rebuttal testimony or -- I forgot where we were.

6 MR. FITZHENRY: You already asked that
7 question.

8 Q. I guess it is your rebuttal. You state the
9 Commission employed an equalized rate of return
10 revenue allocation in the Company's prior delivery
11 service cases, is that correct?

12 A. That's correct.

13 Q. Now, regardless of whether or not the
14 Company's study is used or whether or not the IIEC
15 modified study are used, the across the board revenue
16 allocation does not produce an equalized rate of
17 return in this case, is that correct?

18 A. That's correct.

19 Q. Now, would you look at lines 172 to 178 of
20 your rebuttal? And there you discuss seasonably
21 differentiated DS-3 and DS-4 demand charges, is that
22 correct?

1 A. That's correct.

2 Q. And you talk about the need to make a
3 further assessment of this kind of approach and you
4 suggest that no empirical data has been provided to
5 substantiate this proposal, is that correct?

6 A. Yes. The statement is Mr. Adkisson had not
7 provided empirical data to substantiate his position.

8 Q. And what kind of empirical data did you
9 contemplate there?

10 A. Cost of service and revenue contribution
11 toward the cost of service and how these customers
12 contribute to the circuit peaks.

13 Q. And why would it be important to have that
14 type of data?

15 A. Well, if we are going to introduce seasonal
16 rates, presumably you will do so with cost of service
17 backing. I think it is consistent with the
18 Commission's past practice of setting cost-based
19 rates.

20 Q. And if this type of data had been provided
21 here, would you have been more receptive to this
22 idea?

1 A. We would have had to evaluate the data,
2 evaluate the proposal, to see if the costs and the
3 revenue line up.

4 Q. Now, I would like to direct you to lines
5 303 to 304 of your rebuttal. Are you there?

6 A. I am there.

7 Q. And you indicate there that the proposed
8 transformation charge is within the cost range
9 provided in the last DST case, is that correct?

10 A. That's correct.

11 Q. And I would like to direct you to lines 250
12 to 251 of your rebuttal.

13 A. I am there.

14 Q. Now, looking at line 51 you are talking
15 about -- 251, 250 to 252, you are talking about the
16 same transformation charge, is that correct?

17 A. I am sorry, 251 is addressing the
18 transformation charge. 252 starts talking about the
19 reactive demand charge.

20 Q. Right. The sentence that begins on 250
21 ends on 252, and that's the one that contains the
22 reference to the transformation charge that you

1 discuss on lines 301 to 304, is that correct?

2 A. Yes.

3 Q. Now, I noted that at lines 250 to 251 you
4 suggest that the transformation charge is below the
5 range, and at lines 303 to 304 you suggest that it is
6 within the range. Which one is correct?

7 A. The transformation charge -- the statement
8 that begins on line 250 is correct.

9 Q. Now, I would like to refer you to lines
10 147, beginning of line 147, and extending to line 223
11 of your surrebuttal testimony. Are you there?

12 A. Yes.

13 Q. Now, is it a fair characterization of this
14 portion of your testimony -- is this an assessment of
15 the cost of serving the intermittent user such as
16 grain dryers in the DS-4 class?

17 A. This is an assessment exclusively dealing
18 with the grain drying rate limited customers.

19 Q. And also in there in between lines 147 and
20 223 you compare the cost of serving those customers
21 to the costs of serving other DS-4 customers with a
22 more stable usage, such as manufacturers?

1 A. Yes.

2 Q. Now, would you agree that your testimony
3 demonstrates that the intermittent customers aren't
4 providing revenues commensurate with the costs that
5 they impose even if one ignores the rate limiter?

6 A. In this example, yes.

7 Q. Would you agree that the rate limiter only
8 adds to this subsidy that exists?

9 A. I believe that to be true for the DS-4s,
10 yes.

11 Q. Now, would you look at lines 333 to 337 of
12 your surrebuttal?

13 A. Okay.

14 Q. Now, would it be correct to say that if a
15 cost study is to be performed and used, Ameren agrees
16 that the recognition of the MDS can be appropriate?

17 A. Ameren agrees that an MDS-based methodology
18 is valid.

19 Q. And MDS in this case means minimum
20 distribution system?

21 A. Yes.

22 Q. Now, would you agree that in this case

1 Ameren simply does not accept IIEC's computation of
2 the MDS?

3 A. Yes.

4 Q. Now, the Ameren cost study submitted in
5 this case as part of the Company's 285 filing and
6 admitted into the record for the -- I hope they are
7 admitted into the record -- for the electric case,
8 were submitted without consideration of the MDS at
9 all, is that correct?

10 A. That's correct.

11 Q. And the only study in the case that would
12 consider the MDS method under any circumstance is the
13 study that was -- the modified study offered by IIEC?

14 A. Yes.

15 Q. Last line of cross, Mr. Jones. Could you
16 look at -- I am referencing lines 333 to 337 of your
17 surrebuttal again. Now, there you suggest that the
18 across the board increase eliminates or it obviates
19 the need to make a decision on the preferred embedded
20 cost study in this case, is that correct?

21 A. That's correct.

22 Q. Now, is it your primary recommendation that

1 the Commission should disregard any evidence in the
2 record on cost of service and make no decision on the
3 merits of any particular cost of service study
4 approach?

5 A. Yes.

6 MR. E. ROBERTSON: That's all I have. Thanks,
7 Mr. Jones.

8 JUDGE ALBERS: Thank you, Mr. Robertson.

9 CROSS EXAMINATION

10 BY MR. JENKINS:

11 Q. Mr. Jones, good afternoon or evening or
12 today or tomorrow. I am not sure which it is now.
13 But my name is Alan Jenkins on behalf of the
14 Commercial Group, a number of your Ameren's customers
15 whose load mainly falls in the DS-3 and DS-4 classes.

16 Since we were just dealing with your
17 surrebuttal and you probably have that handy, if you
18 could look at page 2, the second bullet, when
19 Mr. Robertson was asking you some questions about the
20 cost of service information, you stated that Ameren
21 believes the Commission should ignore all cost of
22 service information in this case. Nevertheless, if

1 the Commission disagrees with that and decides to
2 take into account cost information, you state there
3 that the E-cost submitted by Ameren should be used,
4 is that right?

5 A. Yes.

6 Q. And just to be used, that's the E-cost that
7 Ameren submitted as Schedule E6 in this case?

8 A. That's correct.

9 Q. Thank you. Now, going back to your direct
10 testimony on page 4 you start by listing the various
11 service classes. And I wonder, I see there is DS-1,
12 2, 3, 4, 5. Let's say an example of an elementary
13 school, a typical elementary school. Where would you
14 think they would fall?

15 A. It depends on how large of a load the
16 school has. They could either be in the DS-3 class
17 or the DS-4 class.

18 Q. Something like a college or a university
19 might be a 4, a DS-4 then?

20 A. A college or university would more likely
21 be a DS-4. However, let me go back to the elementary
22 school. It is probably going to be a DS-3. A high

1 school might fall into more a DS-4 class.

2 Q. Now, on page 12 of your direct, around line
3 252 on, you start talking about a transformation
4 charge. And I wonder what DS-3 and DS-4 customers
5 incur a transformation charge?

6 A. All DS-3 and DS-4 customers incur a
7 transformation charge unless they own their own
8 transformation equipment or rent it from the company.

9 Q. Okay. And just to understand, why don't
10 you explain what a transformation charge covers?

11 A. Transformation provides the transformation
12 of voltage from the customer's supply line voltage to
13 the voltage used by the customer. For example, he
14 could have a 12 kV primary line out in front of the
15 street. There is a transformer that on the high end
16 connects the 12 kV and transfers the voltage down to
17 a secondary voltage, perhaps 480 volts, for use of
18 the delivery into the location.

19 Q. Okay. Now, just so I understand better, do
20 all high voltage customers have their own
21 transformation equipment or rent it from Ameren?

22 A. Not all. Some do.

1 Q. Some, is it majority, minority, would you
2 say?

3 A. It depends on the utility. AmerenIP, it
4 might be one half or greater of the DS-4 class.

5 Q. Which way, that have their own?

6 A. They have their own. At CIPS and CILCO it
7 is not as common, and it is not common in the DS-3
8 class for customer ownership but it is -- it does
9 happen.

10 Q. I am curious, how about the over a hundred
11 kV customers? Would they all have their own
12 transformation equipment?

13 A. Again, it is mixed.

14 Q. Similar or higher percentages than what you
15 just said?

16 A. I don't know what the percentages are.

17 Q. Okay. Now, if you could turn to Ameren
18 Exhibit 12.7E and perhaps page 2, are you there?

19 A. Yes.

20 Q. Now, then line 51, Column D, I guess this
21 shows that for AmerenCILCO, AmerenCILCO receives \$2.6
22 million in transformation charge revenue, right?

1 A. That's correct.

2 Q. And that would be increased under the
3 Company's proposal to Column G, 3.3 million annual
4 revenue, right?

5 A. Yes.

6 Q. Now, in the cost study that was performed,
7 isn't it true that Ameren allocated the
8 transformation revenue on a kW basis to the primary
9 high voltage and above 100 kV classes, subclass, I
10 should say?

11 A. If I recall correctly, I believe that is
12 the case.

13 Q. And if you see the Column D here, lines 48
14 through 50, if you total those up, the units kW for
15 primary and high voltage, transmission voltage, they
16 are roughly equal, line 51 of the transformation kW's,
17 right?

18 A. Roughly, yes.

19 Q. And is the idea -- why is there nothing
20 allocated there to secondary?

21 A. The demand charges are based on a
22 customer's supply line voltage. So it would --

1 typically supply line voltage is before
2 transformation.

3 Q. And so what, the transformation charge
4 itself then is considered along with the demand
5 charges?

6 A. Yes.

7 Q. For some historic reason. That's just the
8 way it is done, is that right?

9 A. Well, it's the way it's done. It's the way
10 it was designed in the previous docket.

11 Q. Okay. By the way, that brings up a good
12 question. The cost study that was performed in this
13 case, did you use the similar methodology that was
14 used in prior cases?

15 A. Yes.

16 MR. JENKINS: May I approach the witness?

17 JUDGE ALBERS: Yes.

18 MR. JENKINS: Mark this Commercial Group Cross
19 Exhibit 1. It is mainly just for speed of getting
20 through this. I believe it is all in the -- well, it
21 will be all in the exhibit that Mr. Robertson has
22 asked be included.

1 (Whereupon Commercial Group
2 Cross Exhibit 1 was marked for
3 purposes of identification as of
4 this date.)

5 BY MR. JENKINS:

6 Q. Do you recognize these pages?

7 A. The format is familiar.

8 Q. These are pages -- the first three pages
9 are three annual summaries for the three utilities,
10 correct?

11 A. Yes, for the DS-3 and DS-4 customers.

12 Q. Yes, thank you. And I believe in someone
13 else's testimony they mention a data response that
14 the AmerenIP and AmerenCILCO pages have the date 2004
15 which should be 2006, isn't that correct?

16 A. That's correct.

17 Q. And the final page is AmerenCILCO's annual
18 summary of total plant in service, correct?

19 A. Yes.

20 Q. Let's first look at the page AmerenCILCO
21 page 28-5. I believe it is the third page in this
22 exhibit. If you look at the DS-4 secondary column

1 and if you go to line five, sales revenue, what's
2 pre-rates there mean? Is that before any rate change
3 from this case?

4 A. I believe so.

5 Q. All right. Well, under the DS-4 secondary
6 column, line 5, you see the number 53 and that means
7 \$53,000 of sales revenue was allocated to the DS-4
8 secondary group, is that correct?

9 A. Yes.

10 Q. And line 13 shows that the DS-4 secondary
11 class, according to this, should see a 3,729 percent
12 increase, right?

13 A. That's what it is showing, yes.

14 Q. Now, if we could turn to the next page, the
15 AmerenCILCO page 32-5 which on line 1 is labeled
16 Total Plant In Service, on line 36 if we go again to
17 this DS-4 secondary column, in the cost study Ameren
18 allocated \$15.1 million in line transformation plant
19 costs to the DS-4 secondary group, correct?

20 A. Yes.

21 Q. And none of that line transformer cost is
22 allocated to the primary high voltage or 100 plus kV

1 for the DS-4, correct?

2 A. That's correct.

3 MR. JENKINS: Thank you. No further questions.

4 JUDGE ALBERS: Thank you, Mr. Jenkins. And one

5 more with cross.

6 MR. STREETER: Judge, the Grain and Feed

7 Association would waive cross of this witness.

8 JUDGE ALBERS: All right.

9 MR. TOMC: Your Honor, I am Matt Tomc and I

10 have entered my appearance in this docket. Mr. Flynn

11 entered it for me this morning.

12 I just wanted to report that we have

13 agreed to waive cross tomorrow for Mr. Adkisson with

14 regard to his electric testimony tomorrow. And in

15 speaking we came to the conclusion that there may be

16 some issues that would be better debated in brief

17 than here in cross examination. As part of that we

18 have discussed the potential for admitting certain

19 data requests stipulating to their admissibility into

20 evidence. And we would prefer the vehicle to do

21 that, if we decide to go forward with that plan,

22 would be through a joint motion to admit those items.

1 But I did at this time want to report
2 to Your Honor that that might be a motion pending
3 this week.

4 JUDGE ALBERS: Okay. Thank you.

5 Any further questions for Mr. Jones?
6 If not, do you have any redirect?

7 MR. FITZHENRY: May I have a few minutes with
8 Mr. Jones?

9 (Pause.)

10 JUDGE ALBERS: We are still on the record,
11 Mr. Casey is going to enter his appearance.

12 MR. CASEY: On behalf of Central Illinois Light
13 Company, Central Illinois Public Service Company,
14 Illinois Power Company, Phillip A. Casey, law firm
15 Sonnenschein, Nath and Rosenthal, 233 South Wacker
16 Drive, Suite 7800, Chicago, Illinois 60606.

17 JUDGE ALBERS: I don't think there were any
18 others, but.

19 (Pause.)

20 JUDGE ALBERS: Back on the record.

21 MR. FITZHENRY: We have no redirect. And I did
22 move for the admission of Mr. Jones' exhibits.

1 JUDGE ALBERS: Yes. Any objections? Hearing
2 none --

3 MR. JENKINS: Also Commercial Group Cross
4 Exhibit 1.

5 JUDGE ALBERS: Yes, the cross exhibit, too, is
6 still pending. Hearing no objections to any of these
7 exhibits concerning Mr. Jones, CILCO Exhibit 12.0E,
8 CIPS 12.0E, IP 12.0E, 26.0, 50.0 are all admitted.
9 And there were no corresponding gas direct exhibits,
10 is that correct, Mr. Fitzhenry?

11 MR. FITZHENRY: I'm sorry?

12 JUDGE ALBERS: There were no corresponding gas
13 direct exhibit?

14 MR. FITZHENRY: No. I failed to mention Ameren
15 Exhibit 50.1, too, when I said my recitation.

16 JUDGE ALBERS: Okay. So any of the attached
17 exhibits to those primary testimony exhibits are also
18 admitted and Kroger Cross Exhibit 1 and Commercial
19 Group Cross Exhibit 1 are also admitted.

20 (Whereupon AmerenCILCO 12.0E,
21 AmerenCIPS 12.0E, AmerenIP
22 12.0E, Ameren Exhibits 26.0,

1 50.0, Kroger Cross Exhibit 1 and
2 Commercial Group Cross Exhibit 1
3 were admitted into evidence.)
4 JUDGE ALBERS: Is there anything further for
5 today? If there is no objection, since everyone is
6 in town we will go ahead and start at 9:00 o'clock
7 tomorrow morning. Anything else? Hearing nothing,
8 then we will continue this tomorrow at 9:00 o'clock.
9 (Whereupon the hearing in this
10 matter was continued until June
11 10, 2008, at 9:00 a.m. in
12 Springfield, Illinois.)
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